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ABSTRACT

"The broad purpose of this research was to examine long-range financial planning at the policy-making level in private colleges and universities. As a result of the study, a method can be suggested which is expected to sharpen the information available to top administrators when they consider the alternatives for allocation of scarce financial resources. The instrument proposed here will be helpful in converting the educational objectives of the institution into financial strategies." Chapter I introduces the study; Chapter II develops the concept of a three-stage financial planning model. Chapter III considers cost administration; Chapter IV develops and analyzes the 3 stage model. Findings and usefulness of the model at Lynchburg are presented in Chapter V. Chapter VI analyzes the model's applicability in 5 private college and university settings. Chapter VII summarizes conclusions and suggests areas for further study that can extend the understanding of the concepts presented in this research. The 200 pages of appendices contain interviews concerning the model's success with administrators of the 5 participating institutions. (Author/NF)

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Research Report

Project No. 8-C-063
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The Development of a System of Administering and Measuring Strategic Expenditures in Private Colleges

William James Arthur

Lynchburg College Research Center

Lynchburg, Virginia

September 8, 1969

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In a study involving five colleges and universities there necessarily are a great many people who offer valuable assistance and to whom one becomes deeply indebted. The danger in attempting to articulate my appreciation to these people is that I will not do it adequately or that I will omit someone. If this does happen I trust that the injured persons will look upon it as an oversight due to the large number of people involved rather than an intentional effort to minimize his valuable assistance. Throughout this research I was continually impressed with the willingness and candor with which administrators at all schools talked about their organizations, their problems, and their goals. This and their willingness to provide financial data made it possible to do the necessary in-depth work and to reach the stated conclusions. Because of the enthusiasm of administrators at the five schools participating in this study, more in-depth analysis of strategy was possible than was envisioned at the beginning of my work.

This research was accomplished under the direction of Professor William Rotch at the Graduate School of Business Administration, University of Virginia. His patient criticism and suggestions have been invaluable in focusing my thoughts and in the presentation of the research findings. In addition, other members of the Graduate Business School faculty were helpful in this work. Dean Charles C. Abbott had considerable interest and many helpful comments to make at the proposal defense and as the research progressed. Also, Professor Almond R. Coleman (on the proposal committee), Professor Lee R. Johnston, Professor Frederick S. Morton, and Professor John L. Colley, Jr., offered numerous suggestions that helped to break loose particularly knotty problems during the study.

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The four schools used to test the Lynchburg College findings were Duke University, Hiram College, Stetson University, and Washington & Lee University. The administrators at these schools offered their time and assistance to a degree that was totally unexpected. Merely referring to them here is in no way indicative of their valuable support. At Duke University--Dean Frederick C. Jeorg, Associate Dean of Arts and Sciences; at Hiram College--President Elmer Jagow, Mr. Paul Sago, Director of Development, and Mr. Ernest E. Conklin, Business Manager; at Stetson University--President Paul F. Geren, Dr. John E. Johns, Business Manager, Mr. H. Graves Edmondson, Jr., Comptroller, and Mr. Ted Banks, Director of Development; at Washington & Lee University--President Robert E.R. Huntley, Mr. Frank E. Parsons, Director of Institutional Research, and Mr. Robert Whitehead, Treasurer.

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CHAPTER I

INTRODUCTION

The broad purpose of this research was to examine long-range financial planning at the policy-making level in private colleges and universities. As a result of the study, a method can be suggested which is expected to sharpen the information available to top administrators when they consider the alternatives for allocation of scarce financial resources. The instrument proposed here will be helpful in converting the educational objectives of the institution into financial strategies.

The need for long-range planning is critical to higher education. It stems first from the high proportion of costs that result from long-term commitments. For instance, faculty salaries can represent a substantial commitment for many years into the future because of tenure. Unlike industry, curtailment of an activity in an educational institution does not mean the termination of the employment of all people associated with that activity. In addition, there are many expenses incurred in support of the faculty which tend not to vary with the level of student enrollment. These committed costs cannot be controlled by annual budgets but must be planned prior to their being incurred.

Because of particular limitations on financial resources, long-range planning is more important for private colleges so that new programs can be seen in the context of financial constraints. Both state-supported and private institutions receive tuition income, gifts, grants, and endowment income. But private colleges do not have recourse to state revenues. Expenditures not supported by non-tuition income in private colleges must be paid by student charges. With costs continuing to rise in higher education, private colleges must have better information at the proper time to plan financial commitments if they are to survive the challenge of state-supported education.

As part of the long-range planning process, a quantitative measure is needed to evaluate financial performance. This should not be construed as a need for a quantitative measure of educational objectives but colleges and universities do have financial objectives apart from the academic purposes. It is in the evaluation of financial objectives that the lack of a quantitative measure is crucial. There is no existing single measure of financial feasibility that can be used to plan or control operating or capital expenditures. This situation is in contrast with industry where numerous quantitative measures are in use. For colleges and universities, however, there are no production standards, no percent-of-market goals, no current ratios or receivable and inventory turnover ratios and most importantly, there is no rate of return on investment.

In recent years managers and writers in business have come to recognize that the ultimate ROI measure is not always the most appropriate means of evaluating performance. For instance, the profit motive for a research and development function is often too remote to stimulate the scientists and engineers, a stenographic pool in a major corporation is little concerned about ROI, and many capital expenditures, such as air conditioning for the plant and office, do not have the direct purpose of providing a return on investment.

As a result of this awareness, the concept of "management by objective" has developed and certain techniques have emerged that can be of value to administrators in higher education. These techniques involve determining manageable segments of the institutional mission; segments that can be subjected to analysis with a greater degree of objectivity than the broad statement of the total mission.

C. E. Graese, partner in Peat, Marwick, Mitchell and Company, has described existing administrative practices in higher education as follows:

> Educational institutions must continue to be classed among the more backward of organizations insofar as administrative procedures are concerned. Tradition has tended to rule. Vast quantities of new monies are being invested in educational plant, equipment, and techniques, but on the basis of academic programs and approaches already obsolete.[1]

Peat, Marwick, Mitchell & Company is one of a number of organizations which has devised a heuristic and computerized mathematical model to assist higher education.

A number of foundations, including the Danforth and the Ford Foundations, have expressed a great deal of disillusionment over the financial measures in use by private colleges today.[2] In addition, many writers are indicating a need for planning and for long-range views of the financial structure of colleges and universities. While they point out the need, very little has been demonstrated in the way of effective methods by which colleges might use long-range planning measures to evaluate specific proposals for new programs and projects. This study will propose a method for spanning this gap in the practices of private colleges and universities.

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[1] C.E. Graese, Partner, Peat, Marwick, Mitchell & Co., "University Management--A Total Review," published in Management Controls, house organ of Peat, Marwick, Mitchell, & Co., April, 1968, pp. 75-76.

[2] The Chronicle of Higher Education, Vol. II, No. 12, February 26, 1968, article quoting McGeorge Bundy, President of the Ford Foundation.

Purposes of the Research

This study was conducted to accomplish two purposes:

1) To examine the system by which private colleges and universities manage their long-term expenditures and to compare this system with the process of managing capital expenditures in industry, and,
2) To develop a methodology, including a quantitative measurement, to evaluate the financial ability of private institutions to accomplish their objectives.

Long-range planning takes place in an administrative context. In order to understand the place of long-range planning the administrative process will be reviewed and compared to the system in business for managing long-term, capital expenditures. Although it is acknowledged that capital expenditures are not equivalent to long-range expenditures in higher education, the analysis of the management system, including planning, in major corporations may be useful to administrators in devising a means of implementing the proposed model. Out of this comparison an understanding of the decision-making process should emerge which will allow administrators to organize their institutions better and allocate resources to institutional objectives. The proposed methodology requires implementation at various management levels even though the planning stage is a top-level process.

Unlike the measures of return on investment used in industry, the methodology referred to in the second purpose will not attempt to determine profitability. The purposes of higher education do not include profitability, and to measure this factor would be a meaningless exercise. Profitability is a motivating objective in industry and the rates of return on investment measure the degree to which segments of the business, as well as the entire business, are accomplishing the objectives. The financial planning methods proposed in this study are also intended to measure the ability of the colleges and universities to accomplish their objectives, but these objectives are related to solvency rather than profitability.

The first priority in developing the methodology was to identify concrete statements of objectives less abstract than the usual statements of broad mission. The schools at which this research was conducted did not have explicit objectives beyond a broad mission such as stated in their catalogs. There were no realistic objectives in terms of the utilization of resources available or the environmental constraints on private higher education. Therefore, as a starting point in the research, it was necessary to devise a framework that would help break up the broad missions into identifiable components that could be measured in terms of financial feasibility.

The long-range expenditure commitments in higher education include more than capital expenditures for buildings, equipment and fixtures. Certain expenses normally referred to in industry as operating expenses are long-term commitments in higher education. For this reason any proposed measurement had to apply to expenditures of both types--capital expenditures and operating expenditures.

The proposed methodology is expected to be useful to top administrators in evaluating the financial feasibility of allocations of future resources and in testing the feasibility of such strategies before commitments are made. Once the broad strategic plans have been developed at the policy-making level, they can then be given to the "middle management" group to fill in the details of operating, capital, and cash budgets.

The methodology proposed in this study will be in the form of a three-stage model: (1) the identification of institutional strategies, (2) the classification of operating and capital expenditures by strategies, and (3) a quantitative measure of the financial ability of the institution to accomplish the strategies. The objective of the model is to be able to evaluate future plans before financial commitments are made to new programs or projects. It is not intended that the model be used as a means of evaluating past performance of the institution or any part thereof.

The Research Program

The research was conducted in the following sequence:

1. The policies and procedures for financial administration at Lynchburg College were examined through interviews with the administrators and through analysis of financial records and reports.

2. The three-stage financial planning model was devised and applied to Lynchburg College. Inputs for the model were determined from the records and source documents at the College.
3. The policies and procedures for financial administration at three test schools were determined and compared with the Lynchburg College findings.
4. The systems in the three schools were compared with the industry practices for managing capital expenditures which were determined from a survey of the business finance literature.
5. The availability of the data for the three-stage model was determined at the test schools. This step was taken only at Hiram College, Stetson University, and Washington & Lee University.
6. A test of the usefulness was made at Lynchburg College by holding a meeting of top administrators at Lynchburg College in which the model was discussed and used to demonstrate its application to long-range decision-making.
7. As a result of the test at Lynchburg College and the tests for availability of inputs at the three test schools, one further research step was taken at Duke University. The previous work indicated a need to determine the effects on the model of larger size and organizational complexity, both of which were studied at Duke.

The Research Questions

The two-fold purpose of this study was accomplished by answering the following questions, also stated in two parts.

I. For comparison of the management processes:
   A. At Lynchburg College:
      1. What are the financial objectives of the College?
      2. Who in the College organization has responsibility for
         a. Initiating new ideas for programs and projects,
         b. Evaluating expenditure requests,
         c. Approving expenditure requests,
         d. Implementing the programs or projects requested?
      3. What policies and procedures are in use at the College to carry out the steps in administering long-range financial commitments?
      4. Identify and define the characteristics of Lynchburg College as to size, age, growth trends, endowment size, amount of non-tuition income, organization, church or other affiliation, institutional objectives, and administrative competence and attitude.
   B. At other private colleges and universities:
      1. Identify and define the same characteristics of the other schools that were used to describe Lynchburg College.
      2. Are the financial objectives, policies, and procedures similar or different from those at Lynchburg College? If so, in what respects?
      3. What are the differences or similarities between the organizational structure at Lynchburg College and the test schools?

C. General:
  1. What are the similarities between the system in the five participating institutions for administering long-term financial commitments and the process in industry for managing capital expenditures?
  2. Is the industry process applicable, in whole or in part, to the needs of higher education as evidenced by the five schools?

II. For development of the three-stage model:
  A. At Lynchburg College:
    1. Is there an existing analytical technique used at the College to evaluate long-range financial commitments? If so, what is it and how is it used?
    2. Is the proposed model applicable to the Lynchburg College need for financial planning information and can it be a useful guide to top administrators in long-range planning?
  B. At other colleges and universities:
    1. Is there an existing analytical technique in use at the four test schools to evaluate long-range financial commitments? If so, what is it and how is it used?
    2. Are the inputs necessary for the three-stage model available in the proper form at other schools?
      a. Are the administrators able to identify strategies?
      b. Is the necessary financial data in the proper form?
      c. Do the schools have the staff competence and organizational structure necessary to implement the model?
      d. Are there any characteristics of the schools that limit the applicability of the model?

C. General:

  1. To what extent does the model have general applicability at schools with different characteristics from Lynchburg College?
  2. Is the model a viable method of evaluating long-range plans in private higher education?
  3. What areas for further research can be pursued to extend the usefulness of this study?

Parameters of the Study

Private schools, as opposed to state-supported institutions, were chosen as the focus of this study since they are more dependent upon revenue from voluntary sources and a measure of financial feasibility would be more meaningful to them. This factor, plus the physical limitations of the study, made it desirable to restrict the research to private higher education. The number of private institutions is compared with the number of state-supported colleges and universities in Table I-1.

In the five years from 1962 to 1967 the percentage of private institutions to total schools declined from 65% to 60.5% while the percentage of private enrollments declined from 38.3% to 31.4% (Table I-1). In spite of this declining share of enrollment, private education is still of substantial size, the absolute number of schools and enrollment is still increasing, and some of our highest quality schools are privately supported.

Parameters around private higher education cannot be drawn with precision. In the past it may have been sufficient to draw a distinction between private and public institutions based on the source of revenue but today most

TABLE I-1

COMPARISON OF PRIVATE AND STATE-SUPPORTED INSTITUTIONS OF HIGHER EDUCATION AS OF FALL, 1967 & 1962[a]

	1967				1962			
	No. of Schools	%	Enrollment	%	No. of Schools	%	Enrollment	%
Private:								
Two-year Schools	267	11.2	143,409	3.6	213	10.0	71,341	.2
Four-year Schools and Universities	1177	49.3	1,969,948	27.8	1099	55.0	1,538,427	38.1
Total	1444	60.5	2,113,357	31.4	1312[b]	65.0	1,609,768[b]	38.3
State-Supported:								
Two-year Schools	522	19.2	1,374,670	19.4	351	17.0	520,987	12.4
Four-year Schools	416	20.3	3,476,660	49.2	380	19.0	2,075,917	49.3
Total[c]	938	39.5	4,850,330	68.6	731	35.0	2,596,904	61.7
TOTAL	2383	100.0	7,063,687	100.0	2043	100.0	4,206,672	100.0

(a) U. S. Office of Education, Opening Fall Enrollment, 1967, and 1962.

(b) In 1962-63, there were 817 private schools with some form of church association according to a study sponsored by the Danforth Foundation (Manning M. Patillo, Jr., and Donald M. MacKenzie, Church-Sponsored Higher Education in the United States, Washington, D. C., American Council of Education, 1966).

(c) Approximately 50 technical schools who offered no type of transfer credit are not included in the 1962 figures but are included in 1967.

all institutions use public money in some form. In addition, the term "private" is frequently used as a synonym for "independent", in reference to certain colleges. Many private schools are not independent, however, since the majority of them have some form of church association.

There are several differences that must be considered in distinguishing between private institutions and state-supported (public) colleges and universities. From a budgetary point-of-view, in state-supported schools revenue is determined by projecting income from endowments, gifts and grants, and other outside sources. Beyond this, state institutions have two additional sources of income; the tuition charged to students and the budget request to the state. In private colleges and universities income from endowments, gifts and grants and other outside sources is determined in a manner similar to that of the state-supported institution but beyond that tuition is the only source of revenue. Furthermore, the private school must set its tuition rate in competition with other private schools as well as state-supported institutions.

In public institutions there is a prevailing opinion that capital additions which cannot be supported with federal grants should be financed with state funds. In private institutions capital additions not financed by federal funds must be financed by private donors or lenders.[3]

A final difference between public and private colleges and universities concerns the authority and responsibility of the governing body. In state institutions that group receives its authority from the state and is responsible to the state for the efficient operation of the institution. In private schools the authority of the governing body comes from the charter or from bylaws of the institution itself. Often this legal authority is quite vague and is set by custom rather than by the legal documents. Perhaps more significant is that the governing body is not held responsible by an organization comparable to the state. Neither is there a body of owners to hold the trustees accountable, except in those schools that are owned and operated directly by a religious organization.

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[3] American Council on Education, College and University Business Administration, Revised Edition, (Washington, D. C., American Council on Education, 1968), p. 180; also, informal conversations with various administrators.

Church association of every type does not require that trustees report to the church, however. An extensive study of the church association of private colleges and universities was conducted by Manning M. Pattillo, Jr., and Donald M. MacKenzie for the Danforth Foundation.[4] They found 817 institutions of higher learning professing church relationships of one or more of the characteristics in Table I-2.

Using the six characteristics, the church relationships of the five schools used in this study are classified in Table I-3.

Throughout this study the terms "college" and "university" will be used but no clear distinction between a college and a university was found. In fact, there seems to be additional categories emerging, e.g., Clark Kerr's

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[4] Manning M. Pattillo, Jr., and Donald M. MacKenzie, Church-Sponsored Higher Education in the United States, (Washington, D. C., American Council on Education, 1966), Chapter 3.

TABLE I-2[5]

NUMBER OF INSTITUTIONS REPORTING EACH ELEMENT OF RELATIONSHIP

Element of Relationship	Frequency N	Frequency %
1. Composition of board of control	687	84.1
a. Church membership required	574	70.3
b. Board members nominated/elected by church	438	53.6
2. Institution owned by church (or religious order or congregation)	573	70.1
3. Institution receives financial support from official church sources	766	93.7
a. For educational and general budget	602	73.7
b. In form of contributed services (Roman Catholic)	242	29.6
c. For capital purposes	364	44.6
4. Institution affiliated with church college organization/subscribes to set of standards	631	77.2
a. Institution affiliated with denominational organization of colleges	529	64.7
b. Institution subscribes to standards or policy set by church for colleges	393	48.1
5. Institutional statement of purpose reflects religious orientation	782	95.7
6. Preference given church members in faculty and staff selection	575	70.4

[5] *Ibid.*, p. 34.

TABLE I-3[6]

CHURCH ASSOCIATION OF LYNCHBURG COLLEGE AND THE FOUR TEST SCHOOLS

	Lynchburg	Duke	Hiram	Stetson	Washington & Lee
	Disciples of Christ	Methodist	Disciples of Christ	Southern Baptist	None
1. Board Composition	No Requirement	No Requirement	No Requirement	75% from Church	
2. Church Ownership	No	No	No	No	
3. Annual Financial Support a) Current Fund b) Designated	$ 65,000 Minimal	Less than 1% Minimal	$ 40,000 Minimal	$300,000 Minimal	NO
4. Use of Denominational Name or Standards	No	Yes	Yes	Yes	CHURCH
5. Religious reflections in School Purposes	Yes	Yes	Yes	Yes	
6. Requirement of membership in denomination for faculty & staff	Yes, Staff	Yes, Staff	No	Yes, Staff	ASSOCIATION

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[6] From interviews with school officials

"multiversity."[7] There is also a noticeable trend among smaller colleges to attempt to expand their effort into graduate education and into contract research. These schools seem to be in a fourth category between a college and a university; a type of institution that one might refer to as a "miniversity." With this new group of institutions, colleges and universities might be classified by their position on a spectrum as follows:

1. College - the institution of higher learning that emphasizes undergraduate teaching, and research or public service projects would be conducted by individual faculty members rather than by the institution itself.
2. Miniversity - the institution that emphasizes undergraduate teaching foremost but also offers graduate professional education (at the master's level) usually to meet specific or local demand. This type of school might also be involved in some research and public service projects but on a relatively small localized basis.
3. University - the institution that offers undergraduate education and several types of graduate professional education probably including doctoral work. There would also be a functioning research organization involving faculty. Local public service projects may or may not be undertaken depending on the

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[7] Clark Kerr, The Uses of the University, (New York: Harper and Row, Publishers, 1963), Chapter I.

geographical location of the institution. National public service functions would probably involve the institution and a significant number of faculty.

4. Multiversity - this type of institution would be the higher education "supermarket" identified by Clark Kerr. It places considerable emphasis on graduate teaching although there is also a large undergraduate program, on research, and on public service. This concept of higher education requires the massive allocation of resources that only a very few can afford. It carries with it the necessity for federal funds of a continuing nature and in large amounts. The prime example of this type of institution is the University system in California.

Use of Lynchburg College

The development of the financial planning model required a study in depth at a private institution which was to some degree typical of other private institutions and which would allow access to the data necessary to conduct the research. Lynchburg College was selected for the in-depth study to meet these two criteria.

In many ways Lynchburg College was typical of the 600 colleges and universities whose size placed them in the middle group of private institutions of higher education in the United States. Examples of the "average" status include:

1) Average 1964-1965 enrollment--1040 (Lynchburg College 1964-1965 enrollment--1025).

2) Average enrollment projection by 1974--1590 (Lynchburg College projection is for enrollment level out at 1500-2000).

3) Average 1964-1965 operating budget--$2,065,000 (Lynchburg College 1964-1965 operating budget--$2,060,000).[8]

Lynchburg College's endowments of $2,300,000 (6/30/67) and endowment income of $85,000 was low in comparison with older schools. Since many college administrators were predicting that the rate of growth in endowment income would decline, it seemed that the problem of lack of funds for new programs and projects facing Lynchburg College would be of interest to other schools in the future.

In 1967-1968 Lynchburg College had 99 full-time faculty members in 22 academic departments. Graduate work had recently been initiated in business administration, education, and physics. Total assets of the College amounted to $9,700,000 (1967-68) with debt of $994,000. Construction projects in progress in 1968 would add about $3.65 million to assets and $3.15 million to liabilities.

In addition to the average status there was a plan in effect to develop the college from a locally-oriented school to a more regional institution. This plan was valuable in the analysis of strategies as proposed in this research.

Finally, the rapport between the researcher and the administrative officials at Lynchburg College made an "in-depth" study possible to an extent not available at other institutions. The researcher had been a member of the faculty about three years, chairman of the Business Administration Department, member of various committees, including the standing Curriculum Committee and Curriculum Study Committee, and had had much contact with the administration in other matters.

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[8] The nation's average figures were taken from a survey in 1966 by the Independent College Funds of America, 5108 Empire State Building, New York, N.Y., 10001. Lynchburg College data was taken from unpublished reports of the College.

Selection of Test Schools

At the conclusion of the research at Lynchburg College certain tests were conducted at four other private institutions; Hiram College, Stetson University, Washington & Lee University, and Duke University. The schools selected were intended to represent a spectrum of characteristics such as size, organization, age, growth trends, endowment size, geography, major source of income, church or other affiliation, institutional objectives, and administrative competence and attitude.

The work at the four test schools was expected to contribute to the two purposes of this research in several ways. Their policies and procedures in the area of financial administration, along with those of Lynchburg College, were to be compared with the system in industry for managing capital expenditures. The purpose was to determine the degree to which the Lynchburg College process was typical and to point out similarities and differences between the systems in industry and higher education. The results of this part of the work is presented in Chapter III.

In addition, the purpose of the tests at the other schools was to determine if the proposed three-stage model could be applied at schools with different characteristics from Lynchburg College. This is presented in Chapter VI. Particular attention in these latter tests was on the quantitative measurement stage of the model. The purpose was not to reach a decision as to whether or not the model should be applied, only to determine whether it had applicability and could be put into use. The value of the model depends, first, upon whether it has general applicability other than at Lynchburg College and, second, upon whether administrators actually find its use helpful. The tests at other schools were only intended to resolve the first issue.

Presentation of the Research

The concept of the three-stage financial planning model is introduced in Chapter II using terminology from the study of business policy. Specifically, the terms "strategy," "strategic planning," and "strategic expenditures" will be taken from their business context and applied to financial planning in higher education (particularly at Lynchburg College).

Chapter III is a comparative presentation of the process in higher education for administering long-range expenditures and the system in industry for managing capital expenditures.

In Chapter IV, the three-stage financial planning model is developed and analyzed. This was accomplished using the data from Lynchburg College.

The test of the usefulness of the model at Lynchburg is presented in Chapter V and the findings are discussed.

In Chapter VI the findings at the test schools concerning the availability of input data for the model and its applicability in a setting different from Lynchburg College is presented and analyzed.

In Chapter VII previous conclusions drawn at the end of various stages of the study are summarized without further discussion. In addition, areas for further study are suggested that can extend the understanding of the concepts presented in this research.

CHAPTER II

THE CONCEPTS OF STRATEGY AND STRATEGIC EXPENDITURES

As was stated in Chapter I, the financial planning model proposed in this study involves three stages:

1. the identification of institutional strategies,
2. the classification of expenditures by strategies, and
3. the computation of the quantitative measurement.

The techniques used and some of the terminology may be new to college administrators. The logic of the model focuses on financial elements in a different arrangement from the customary accounting or budgeting system. In this chapter the basic reasoning will be explained and the concepts of strategy and strategic expenditures will be defined. The terminology will be used extensively in the next chapter in which capital expenditure management in industry is compared with the administration of long-term expenditures in higher education.

Need Filled by the Model

The operating budget of the typical private college or university contains a high proportion of expenditures which have been set by past decisions. The salaries of most of the faculty, for example, are largely determined by prior hiring, promotion, and retention decisions. Operating and maintenance costs incurred in running the physical plant are inescapable under normal conditions. In terms used in business, one would say there is a high proportion of "fixed costs"; that is, costs which do not vary with small changes in the level of operations, or, in the case of colleges and universities, changes in the number of students. During the course of this research, college administrators estimated these types of expenditures from 80% to 90% of the annual operating budget. Such "fixed costs" are not entirely uncontrollable, but these administrators indicated that they had fewer options available for lowering them than would normally be the case in industry.[1] The literature on administration in higher education strengthens the position of these administrators.[2]

If the manager of a business decides to drop a product line, costs directly associated with the production and sale of the product can also be eliminated. Such direct control over costs is not possible in higher education. An uneconomical course may be dropped, but the teacher, because of tenure interpretations, is not so easily terminated. A normal salary expense in industry becomes a long-term commitment in colleges and universities. Because of the "fixed" nature of most expenditure commitments in higher education, they correspond with industry's long-term commitment to capital expenditures more than with normal operating expenses. For this reason, industry's distinction between normal operating costs and long-term capital expenditures does not apply in higher education.

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[1] Interview with M. Carey Brewer, President, Lynchburg College, Appendix A-1, pp. 14-15.

Interview with T. A. Bergman, Vice President for Business Affairs, Lynchburg College, Appendix A-3, p. 68.

Interview with Elmer Jagow, President, Hiram College, Appendix B-1, pp. 84-85.

Interview with Paul F. Geren, President, Stetson University, Appendix C-1, pp. 135-136.

Interview with H. Graves Edmundson, Comptroller, Stetson University, Appendix C-3, pp. 152-153.

Interview with Robert E. R. Huntley, President, Washington and Lee University, Appendix D-1, pp. 164-165.

[2] John J. Corson, "Roles and Responsibilities in Management in IHL," Challenges and Change in American Education, Seymour E. Harris, et. al., editors, (Berkeley, California, McCutchan Publishing Company, 1966), pp. 236-237.

Industry generally has come to recognize that long-term capital expenditures are not controllable through operating budgets and has developed more appropriate control techniques through capital budgets. Colleges and universities must also get away from the annual operating budget as a control device over costs that are committed for several years into the future.

Long-range expenditures in business are evaluated in terms of their contribution to objectives, usually the ROI objective. The model proposed in this study is intended to fill such a need in higher education--the need to evaluate the long-range plans for programs and projects in relation to financial objectives. If this evaluation is to take place, the abstract nature of educational objectives must be transformed into specific programs and projects. An over-simplified statement of the financial objective in private higher education is to offer a particular selection of courses and programs within the financial ability of the institution. Out of this objective a statement of institutional strategies for its accomplishment can be derived. The formulation of these institutional strategies is the intent of the first stage of the financial planning model.

Formulation of Institutional Strategy

Frequently private colleges make statements about their purposes such as; to be a liberal arts college. While these purposes are worthwhile, they cannot be converted into workable strategies to evaluate financial objectives. Businesses also have broad purposes which have been referred to by Seymour Tilles as the firm's mission. He says mission "...refers to the fundamental purposes that the organization is trying to achieve."[3] All organizations have fundamental missions to which Tilles refers, even though they are not always able to articulate them. On the other hand, it is not known whether organizations in business and elsewhere have reduced objectives to viable strategies, nevertheless the identification of strategies is a necessary part of this research and a requirement of the proposed model.

The need to identify the general purpose of higher education and to classify purposes by functional missions was intensified by the development of the university where teaching became one of several objectives. James A. Perkins, former president of Cornell University, identified three missions of the university. First, the acquisition of knowledge is the mission of research; second, the transmission of knowledge is the mission of teaching; and, third, the application of knowledge is the mission of public service.[4]

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[3] Seymour Tilles, "Strategies for Allocating Funds," Harvard Business Review, January-February, 1966, p. 75.

[4] James A. Perkins, The University in Transition (Princeton, New Jersey: Princeton University Press, 1966), pp. 9-10.

The universities' and colleges' roles in teaching and basic research have historical foundations that need no amplification, but their role in public service programs has only recently been emphasized. John J. Corson suggests five reasons for their involvement:

> 1. Universities and colleges have the staff, facilities, endowment, climate, and prestige.
> 2. They have people with the particular talents and interests for solving social problems.
> 3. They have objectivity that participants in social action do not have.
> 4. They have a commitment to search for the truth.
> 5. They have ideals and they stand for values that will lend weight to their efforts.[5]

While some of these reasons seem redundant (for instance, #3 and #4), the substance of Corson's statement does indicate a legitimate role in public service for colleges and universities. It has been pointed out, however, that each school should find its own niche in this area and be certain that its efforts are in accord with the institution's strategies in other areas. Each school should adopt strategies for public service for which they have the resources to fulfill a need.[6]

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[5] John J. Corson, "Public Service and Higher Education: Compatibility or Conflict," Whose Goals for Higher Education, Charles S. Dobbins and B. T. Calvin, editors (Washington, D. C.: American Council on Education, 1968), pp. 83-87.

[6] Ibid., Commentary on the Corson article by Roger Lebecha, "No University Should Become 'A Happening'," p. 98.

The concept of institutional strategy is drawn from the study of business policy and the process of formulating corporate strategy.[7] It is an evolving concept even in industry and is an adaptation of the idea of military strategy. Certainly the formulation of strategy involves setting objectives, but it requires more than that. It also requires the recognition of many constraints which tend to provide more realistic goals. These constraints can be seen in the following framework for formulating and implementing strategy adapted from the business policy literature:

1) define feasible objectives,
2) analyze the elements of the environment in which the institution operates,
3) appraise and allocate resources, including money, people, facilities, and administrative and professional competence,
4) evaluate the personal values and style of the top administrators and faculty with due reference to the founder's purposes for the institution,
5) assess the risks and opportunities peculiar to the institution,
6) devise a structure that compliments the strategy: i.e., organizational relationships, information systems, position descriptions, performance measurement techniques, methods of selecting and

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[7] Edmund P. Learned, et. al., Business Policy, Text and Cases, (Homewood, Ill.; Richard D. Irwin, Inc., 1965), Chapter I.

> training professional and administrative personnel, and a system of rewards compatible with the type of personnel employed.

These factors can either restrict the institution as it pursues its broad objectives or they can be molded into a pattern that will allow the school to achieve greater success. Not every factor in the framework will be of equal importance in the consideration of different institutions and a full consideration of each one is outside the scope of this study. For this reason the framework will be referred to only when strategy formulation is expected to result in financial commitments. This will eliminate many objectives of substantial academic importance but which do not have major financial implications. In light of this parameter, the factors of the framework of prime interest to this study are the appraisal and allocation of resources (#3), particularly financial resources, and the structural relationships (#6) necessary to implement the proposed financial planning model.

The value of this framework comes from an understanding of the reason why it is evolving in business.[8] In the early years of corporate existence, businesses were usually single purpose operations. There was perhaps one product manufactured in one plant with a relatively simple sales effort. There was a minimum of outside influences from government, unions, and social reform groups. Under these conditions, profit became the prime motivator and means of evaluation. As corporations became larger and more complex it became less simple to relate all the necessary departments or divisions to profit contribution. Companies such as General Motors and DuPont became multi-purposed with numerous divisions and plants, each with its own objectives not all of which could be measured by ROI. This diversification created a need for a more unified means of giving direction to the organization and objectives were established in terms of something more than a return on investment.

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[8] (a) Alfred D. Chandler, Jr., Strategy and Structure (Cambridge, Mass.: The M. I. T. Press, 1962).
(b) Alfred P. Sloan, Jr., My Years with General Motors (Garden City, N. Y.: Doubleday & Co., Inc., 1964).

In recent years great emphasis has been placed on the concept of "management by objective" in industry, and rightly so. Business is generally credited with being more objective oriented than other types of organizations because of its history of profit motivation. In contrast to the early profit motivation, large diverse corporations are now finding return on investment objectives inadequate to provide the proper direction to their business. Lists of other objectives have been developed which tend to sharpen the focus on purposes that exist in addition to the profit requirement. For example, one large international company issued the following statement of objectives.[9]

- to revitalize the sewing machine business,
- to diversify the product line and reduce the over-all dependence on sewing machines, and
- to affect a world-wide reorganization of the operating units of the company and their relations with one another and with the home office.

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[9] "The International Manufacturing Company" (B), ICH 9G250R, Harvard Business School, 1964, p. 1.

Defining and implementing these objectives, establishing a structure to facilitate their accomplishment, and allocating resources while considering environment, opportunity and risk became the strategy adopted by this company.

Chandler defines strategy as "the determination of basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."[10] Elsewhere in his book, he further defines strategy simply as "the plan for the allocation of resources to anticipated demand."[11] One might call this concept an action plan. For a college or university the strategies would be to allocate resources to the objective of accommodating society's demand for educational opportunities. For a private institution this concept of strategies emphasizes the need to understand the constraints placed upon their objectives by limited resources.

It should be noted at this point that the plural use of the word "strategies" will be intended to refer to those specific programs and projects undertaken by a business or a college in furtherance of its fundamental mission. They will be somewhat more detailed than the objectives identified in the sewing machine company case but in total will reflect the same type of direction. The more detailed concept was found to be more useful in this research in relating expenditures to strategies.

To illustrate the concept of strategies and to provide a comparison with the College's broad statement of mission, the statement of mission from the 1964-65 Catalogue is listed below followed by the list of strategies implicit and explicit in the conduct of the present administration.

> Lynchburg College is committed to the Christian-democratic principle that every individual is of

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[10] Chandler, op. cit., p. 13.

[11] Ibid., p. 383.

> infinite worth within the brotherhood of mankind. On the basis of this principle its paramount objective is to enable the student to achieve the highest possible degree of self-realization and to make his greatest contribution to human welfare.
>
> Lynchburg College endeavors to provide a program of liberal education, including a sound core of general studies consistent with the needs of youth in contemporary society, and such vocational courses as are in keeping with its resources and objectives.

The strategies were identified as follows:

1. To become a regional and residential school, as contrasted with its more local constituency of past years, attracting students from different social, economic, racial, ethnic, and religious environments.
2. To accept undergraduate students whose high school performance ranks them in the middle third of their graduating class or above, if they can demonstrate other qualities that indicate potential success in college (This strategy does not diminish the efforts to attract top students as well.)
3. To require a well-rounded core of liberal arts courses of all students regardless of their major field emphasis.
4. To maintain the moral, ethical, and social standards of a church-related institution.
5. To improve the weaker academic departments selectively through significant allocations of resources and to emphasize the academic strengths of the college.
6. To improve the general academic program through the addition of high caliber faculty and the establishment of funded faculty improvement programs.

7. To encourage research by members of the faculty and staff who have the interest but at the same time to maintain emphasis on the primary college function of good teaching.
8. To offer graduate work at the master's level in the fields where the college has competence and resources.
9. To meet the community need for continuing education programs in addition to graduate education when it is compatible with community growth and the college's resources.
10. To maintain the size of the undergraduate program between 1500 and 2000 students and to allow the graduate division to achieve its greatest foreseeable size.
11. To actively seek funds to provide the facilities and other resources required by 1500-2000 students. (This is manifest in the 10-Year Development Program.)
12. To reorganize the college into three functional areas and, within the Academic Affairs function, to constitute 22 departments.
13. To maintain the existing academic areas of study where there is a demand by a significant number of students, recognizing society's changing attitudes about education.

This list was developed by the researcher, and approved by the President, from statements of policy, methods of operation, and published plans for the future development of the College.

Implications for Strategic Planning

The concepts of planning and allocation of resources appear throughout the discussion of strategy in business policy literature.

> - Top management's primary job in any enterprise is the allocation of limited resources for selected mission purposes, in proper dimensions of time, for the furtherance of specified objectives.
> - D.O.D. [Department of Defense]...has worked to develop:
>   - Strategic planning by missions, allocating limited resources to each one, with plans assembled in a complete, carefully costed program package.
>   - A scheduled annual planning cycle, integrating strategy formulation with the budgeting process.[12]

Chandler makes a distinction between strategic planning and day-to-day operating planning.

> The formulation of policies and procedures can be defined as either strategic or tactical. *Strategic* decisions are concerned with the long-term health of the enterprise. *Tactical* decisions deal more with the day-to-day activities necessary for efficient and smooth operations. But decisions, either tactical or strategic, usually require *implementation* by an allocation or reallocation of resources--funds, equipment, or personnel. Strategic plans can be formulated from below, but normally the implementation of such proposals requires the resources which only the general office can provide. Within the broad policy lines laid

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[12] Donald J. Smalter and Rudy L. Ruggles, "Six Business Lessons from the Pentagon," *Harvard Business Review*, March-April, 1966, pp. 64-65.

> down by that office and with the resources it allocates, the executives at the lower levels carry out tactical decisions.[13]

Strategic plans may be formulated from below as Chandler says, but it is doubtful that this type of planning occurs more than two or three levels into the lower management echelons, and then only in the largest companies. Lower level management does not have the authority over resources to implement strategy (Chandler's point), but in addition their responsibility is usually clearly enclosed within the parameters of job descriptions, job titles, or limited delegation of authority from superiors. Therefore, in practice there is little difference between Chandler's concept of strategic planning and the statement by Tilles:

> What is increasingly needed is a way of thinking about fund allocation that permits the company to be considered as a whole and from the top down, rather than as a collection of pieces from the bottom up.[14]

The difficulty that companies have in thinking in terms of strategic planning is reflected in another article;

> ...plans only describe what happens if the company continues the business policies already in effect. No one is working on the policies themselves. The controller's plans are operating plans and not strategic plans.[15]

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[13] Chandler, op. cit., p. 11.

[14] Harvard Business Review, op. cit., p. 75.

[15] Robert Mainer, "The Case of the Stymied Strategist," Harvard Business Review, May-June, 1968, p. 40.

What is needed, and suggested by both Chandler and Tilles, is a broad systems approach to strategic planning by top management with the authority to implement programs involving the long-term health of the enterprise.

If this need can be observed in industry, it should be even more prominent in private colleges and universities which are committed to greater proportions of "fixed" costs. A system is required that identifies realistic strategies as well as plans for the allocation of resources. This type of strategic planning is suggested in a Research Report sponsored by the Danforth Foundation.

> Church [educational] institutions sorely need models of their own to serve as broad conceptual frameworks. These should provide internally consistent patterns of purpose and program, not as blueprints to be followed slavishly by institutions--we have already inveighed against imitation--but as illustrations of the proper relationship of ends and means.[16]

It seems reasonable that the statement by Pattillo and MacKenzie can include all private institutions, whether it is church related or independent.

With the decision-making responsibility diffused between faculty, administration and trustees, it is important that institutional strategies be formulated and articulated.[17] Without such guidance individuals in the organization will work toward objectives of their own possibly not knowing what is expected of them. This is particularly true in organizations composed primarily of professionals.[18] The importance of strategic planning to private higher education is also emphasized by the limited resources available. This limitation makes it imperative that the maximum contribution to strategies is obtained from the scarce financial resources.

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[16] Manning M. Pattillo, Jr. and Donald M. MacKenzie, Church-Sponsored Higher Education in the United States, Report of the Danforth Commission, American Council on Education, Washington, D. C., 1966, p. 215.

[17] This point will be discussed in more depth in Chapter III.

Strategic Expenditures

Simply stated, the allocation of resources to strategies is what will be referred to as "strategic expenditures." When implementation of a particular strategy results in expenditures for assets, additional people, or other types of expenses that would not otherwise have been made, these can be identified as "strategic expenditures." The term "strategic expenditures" was only found in use in one other source. This was a large company in which strategic expenditures

> (sometimes called 'policy expenditures') include those expenses which are necessary to make provisions for achieving the long-range objectives of the business.... Examples would include projects with the following purposes:
>
> 1. To develop new products,
> 2. To exploit new markets,
> 3. To improve existing products,
> 4. To reduce cost and operating expense,
> 5. To increase capital turnover,
> 6. To reduce lead times,
> 7. To improve marketing methods and distribution,

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[18] Harris, *op. cit.*, pp. 236-237.

> 8. To advertise the company and its products,
> 9. To increase capacity or utilize existing capacity.
>
> Although strategic expenditures cover a wide variety of projects, there is one basic objective in mind: To enhance the future strength of the company and its ability to compete profitably.[19]

The Department of Defense in the early 1960's made a major contribution toward the concept of segmenting the total mission into programs. Strategic expenditures are quite similar to DOD's programs in that each may cut across a number of decision points (academic departments or schools, administrative decision centers, etc.). Within DOD, for instance, the budgets of the Army, Navy, Air Force, and NASA would have a major section for the "Space Program." Presumably, the entire budget of each branch would be distributed to the "programs" requested. If, for some reason, Congress decided to discontinue the "Space Program," that portion of the budget of each branch would be cut. If a new "program" was added by DOD, the funds for it would be added to the budget of those branches which would implement it.

In an effort to apply the DOD experience to higher education, Harry Williams suggests that colleges establish schools and other "collection[s] of integrated resources" as programs.[20] He proposes further that program elements could then be established as "a combination of related resources which enables a student to pursue a particular objective; it might more commonly be defined as a particular department... within a school or college."[21] It would also seem that a major within a department or school could be considered a program element.

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[19] William Rotch, "United Electronics Corporation (A)," UVa-C-355, University of Virginia, Graduate Business School Sponsors, 1966, pp. 2-3.

[20] Harry Williams, Planning for Effective Resource Allocation in Universities, (Washington, D. C., American Council on Education, 1966), p. 7.

Williams has missed a fundamental point, however, in his attempt to apply the DOD concept to higher education. For the government, the space program can be viewed as incremental at the will of Congress, as was pointed out above. This is not necessarily true of a school, a department, or a major in higher education, however. The program itself may be discontinued but the costs associated with it will not automatically disappear for reasons previously discussed. The basic difference between the DOD (and Williams') type of "program" and the concept of "strategic expenditures" proposed in this study results from the difference between incremental and on-going expenditures. A program--school or department--may well be defined as a group of integrated resources over which someone or some group has responsibility and authority but this program will include strategic expenditures that are incremental in the sense that a change in plans prior to commitment can change the expenditure level as well as strategic expenditures that are for on-going program elements that will not necessarily change with a change in plans. Administrators in private colleges and universities do not have the same options to reduce program expenditures as does Congress. If an academic department has, say, six faculty members and only five students in each class, a drain on finances is apparent. Yet, the six faculty members' salaries would not automatically be dropped by discontinuing the department.

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[21] *Ibid.*

It is because of the "fixed" nature of expenses in higher education that a different concept from that proposed by Williams was adopted for this study. Occasionally an institution will have an opportunity to terminate an on-going strategic expenditure, for instance through normal attrition of faculty. This is also a long-range planning problem and can be adopted as a strategy using the model proposed in this research.

The model will focus attention on strategies that require positive action by administrators within the planning period and on the incremental allocation of resources to these strategies (incremental strategic expenditures). The final category of expenditures will be for the on-going strategy of continuing the existing programs. These expenditures will be for programs previously commited and will allow fewer options to administrators for controlling them.

At Lynchburg College, and at the test schools in this research, strategic expenditures represent the allocation of resources to strategies previously identified. The allocation of resources was expressed in financial terms but it should be remembered that in any organization, particularly a college or university, there are intangible resources that cannot be expressed financially. These very important resources are outside the parameter of this study which is only concerned with financial planning.

The Financial Planning Model

A graphic presentation of the three-dimensional financial planning model is presented in Exhibit II-1. Financial resources are first allocated to strategies which are identified by column headings. The total for each column then becomes the strategic expenditures necessary to accomplish the particular strategy. The financial resources to be allocated, the revenue by sources, is also represented by columns on the right-hand side of the matrix. In the long-run the sum of the strategic expenditure columns is expected to equal the sum of the strategic revenue columns.

The rows across the matrix contain summary amounts representing the amount of the strategic expenditures that will be committed by the various "responsibility centers" within the institution. These centers may be academic departments, separate schools, administrative departments, or capital expenditure projects. Since the on-going strategy of continuing existing programs is included, the total of the strategic expenditures for a given row can be used as a control of the planned departmental budgets and for the capital expenditure budgets. The significance of this point is worth reiterating. The strategic expenditures from the model are intended to be a control over the operating and capital budgets to assure that all expenditures are contributing to the total mission as segmented into workable strategies.

Many strategies adopted by a college or university may be aimed at generating revenue necessary to offer a program or to undertake a project. Strategy #11 at Lynchburg College is of this type since it refers to seeking funds necessary for operations and growth. Special efforts were to be made to obtain larger amounts of federal funds as well as grants from private foundations. Further, certain programs for which strategic expenditures were required would also generate income, e.g., the Graduate Studies Division and the Institute of Management. These revenue producing strategies must be incorporated into the revenue constraints on the right-hand side of the matrix.

The third dimension in the matrix, the depth axis, represents the number of years in the planning period. Assuming that asset replacement and expansion is included in the projects planned by the institution, revenue minus strategic expenditures (including the expenditures for continuing existing programs) is expected, in the long-run, to equal zero. Economic price level changes and growth in existing programs mean that increases in future year's strategic expenditures and revenue must be built into the model.

In business "the two-fold objective of financial management is to maximize net present value or wealth by seeing that cash is on hand to pay bills on time, and to assist in the most profitable allocation of resources within the firm."[22] This statement refers to objectives concerning both profitability and solvency. Private colleges and universities are only concerned with solvency, which implies the need for a cash-flow analysis. To measure solvency, borrowed funds are treated in the model as receipts in the year received and repayments are included in a strategic expenditure in each of the years of repayment.

The result of this cash-flow approach is that strategic expenditures minus cash inflow will equal zero in each year rather than the zero balance occurring at the end of the planning period as shown in Exhibit II-1.[23] It is

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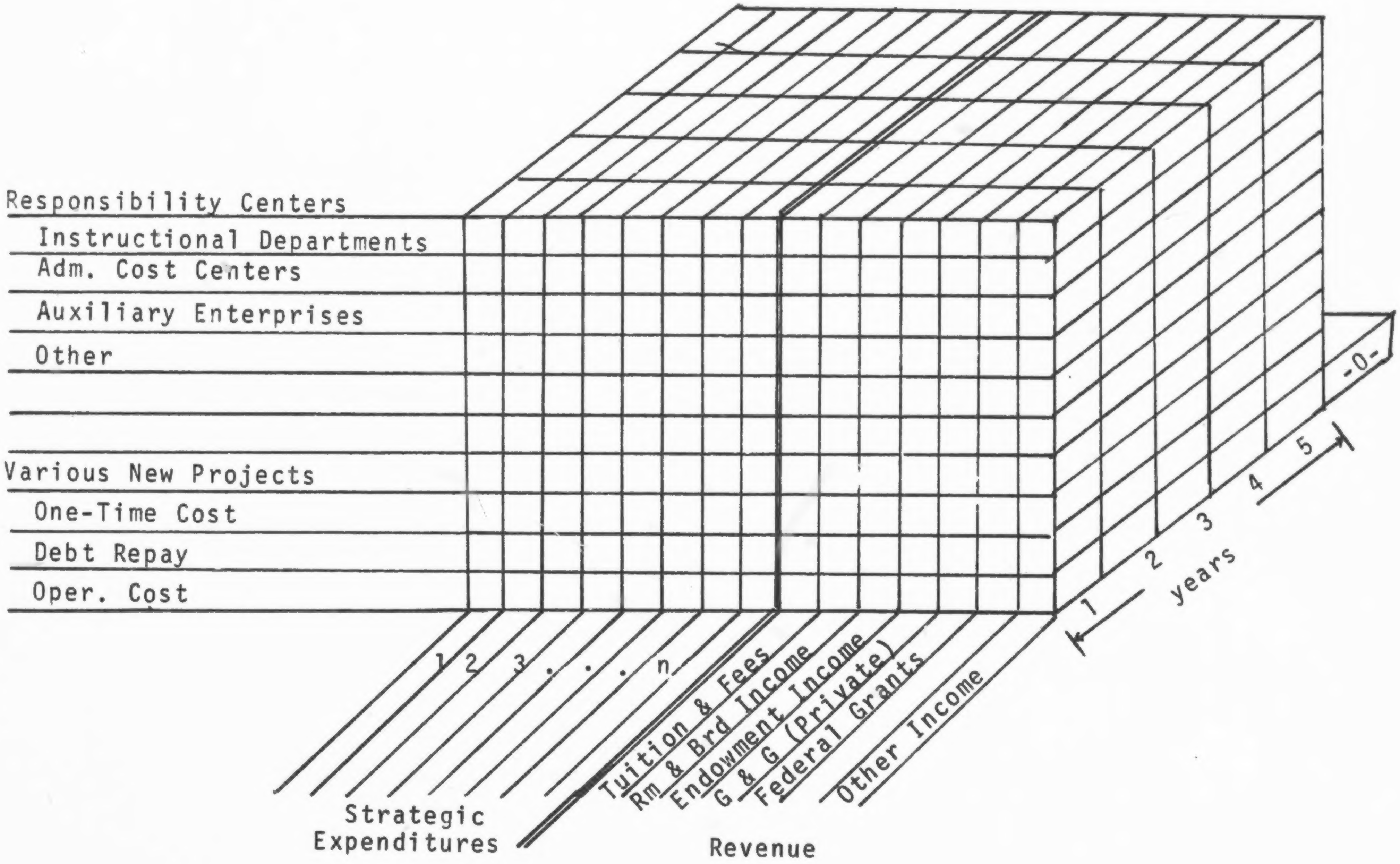
[22] Robert W. Johnson, Financial Management, Third Edition, (Boston: Allyn & Bacon, Inc., 1966), p. 10.

[23] This assumes a level cash balance during each year and through the planning period. In reality, an excess cash balance can also be included in the model as a source of funds and a deficient balance may be a use of funds.

Exhibit II-1

GRAPHIC DESIGN OF FINANCIAL PLANNING MODEL


Responsibility Centers
Instructional Departments
Adm. Cost Centers
Auxiliary Enterprises
Other
Various New Projects
One-Time Cost
Debt Repay
Oper. Cost
1 2 3 . . . n
Strategic Expenditures
Tuition & Fees
Rm & Brd Income
Endowment Income
G & G (Private)
Federal Grants
Other Income
Revenue
1 2 3 4 5
years
-0-

acknowledged that the "zero balance" is probably realistic only in the long-run but for planning purposes it is important to know the amount that will have to be borrowed or the amount of surplus each year. This is a vital part of the planning process. The year-by-year "zero balance" forces administrators to ascertain sources of loan repayment which will have an effect on later years' cash flow.

Given the "zero" constraint and the rates of growth and price level changes, strategic financial planning becomes a matter of asking the questions: "What if we adopt a particular strategy? If this strategy requires the expenditure of resources (not all strategies will) what will be the source of these resources? Can we increase the number of students to be enrolled, increase the tuition rate, obtain a grant, borrow the funds, or reduce the proposed commitment to some other strategy?" The problem becomes one of deciding the most beneficial "trade-off" within the three constraining dimensions of time, strategic expenditures and sources of funds.

The quantitative measure proposed as part of the three-stage model is intended to measure the financial effects of various sets of strategies. As administrators go through a process of iterations intended to balance the academic mission against financial constraints, the quantitative measure will require them to "trade-off" the programs for which there is public demand against those that are financially feasible.

Other types of long-range planning or budgeting have been proposed for higher education but they are fragmented, encumbered with massive detail, and do not clearly reflect the relationship of expenditures to the strategies.[24]

James B. Conant, former president of Harvard, recognized three requisites for the successful operation of a university; solvency, a student body of high quality, and an outstanding faculty.[25] The first requisite, solvency, requires financial planning that facilitates the formulation of strategies aimed at obtaining the student body and faculty. Often private college administrators do not have the background, organizational support, or the resources to cope with the solvency problem. The financial planning model proposed here is intended to help overcome their problem by providing a framework for formulating, implementing, and evaluating institutional strategies for the allocation of financial resources.

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[24] Sidney G. Tickton, Needed: A Ten-Year College Budget (New York: The Fund for the Advancement of Education, 1961).

[25] The University and Its Resources, Harvard University Press, 1967.

CHAPTER III

COMPARISON OF THE ADMINISTRATION OF STRATEGIC EXPENDITURES IN PRIVATE COLLEGES WITH CAPITAL EXPENDITURE MANAGEMENT IN INDUSTRY

The financial planning model proposed in the previous chapter is intended to be used as one step in a total management system which can be viewed in two stages -- a planning stage, for the formulation of strategies and allocation of resources, and an implementation stage, for the direction and evaluation of organizational performance. The purpose of this chapter is to demonstrate the need for the model in the context of the management system.

Although strategic expenditures in higher education are not defined to be identical with capital expenditures in industry, the techniques of capital expenditure management provide a useful contrast to the process in private colleges. The comparison will be made according to the following outline:

I. Company policy (formulation):
    A. Statement of financial objectives
    B. Comparison of guidelines for evaluation of proposals
    C. Identification of the organizational structure

II. Company procedure (implementation):
    A. Initiation of project proposals
    B. Initial screening of proposals
    C. Analysis of the risk involved in the project
    D. Selection of the most advantageous proposals

E. Approval of projects

F. Appropriation of funds to specific projects

G. Post-audit of the performance of funded projects

The procedural aspect of implementing company policy will not be a primary emphasis since this study is concerned with strategic financial planning. The planning processes generally are considered in the policy formulation stages of the system.

The major contributions of business to long-range financial planning and control are manifest in the three stages in company policy formulation for capital expenditure management. Basically, business has (1) refined the techniques of converting abstract missions into viable strategies each of which is an "action plan" to accomplish some element of the total mission, (2) developed sophisticated quantitative measures of performance for the various elements of past and expected performance, and (3) identified effective organizational structures for people, financial, and physical resources. The business policies and procedures are described from a survey of the literature and cases in the field of business finance. The higher education data was derived from the field research as well as the literature.

I. POLICIES

A. Statement of Financial Objectives

1. For Capital Expenditures in Business

Corporate financial objectives for capital expenditures are concerned with the "life-blood" of the business since it is these profit-producing investments that provide for survival and future growth. Generally, most statements of corporate objectives for capital investments consider a minimum acceptable rate of return, an acknowledgment of varying types of risk-classes, a level of protection for debtholders in terms of restrictions on the amount of borrowed capital, and an indication of the financial obligation to the stockholders. While the wording of the corporate objectives will vary, statements such as the following, taken from the "Frontier Rubber Company Case," is representative;

(a) To increase earnings per share,

(b) to maintain a dividend pay-out of approximately 65%, and

(c) to maintain a long-term debt ratio of 35% or less of capitalization (in this company capitalization referred to long-term debt plus equity).[1]

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[1] "Frontier Rubber Company," ICH 4F68R, prepared by Joseph L. Fromm, under the direction of Robert F. Vandell, Harvard Graduate School of Business Administration, 1959, p. 2., cf,

"Consolidated Electrical Products, Inc.," (A) ICH 4F78, Robert F. Vandell, Harvard University Graduate School

There are degrees of difference between the financial objectives of companies, but all are concerned with increasing the economic well-being of the stockholders without jeopardizing the firm's solvency. Even though some writers view solvency as a supporting function to profitability, the two cannot be completely separated since long-term profitability depends upon solvency.

A stockholder's economic well-being is served by a particular common stock investment through dividend receipts and growth in market value. Recognizing this, many companies include in their capital expenditure objectives a statement of a desired dividend pay-out ratio. This ratio of dividends to profits is intended to provide the stockholder with a cash return and to stimulate the increase in market value of the shares. In addition, the dividend pay-out ratio assures the firm that sufficient funds will remain to provide for internal growth and to maintain solvency.

Each project proposed through a capital investment system is evaluated in terms of its contribution to the stated objectives. In addition to the profitability and solvency objectives, projects must meet the test of such criteria as an optimum level of risk of failure of the project or of the firm, the compatibility of the projects with the firm's type of business, and the desirability of the projects in terms of social responsibility. These factors frequently are not capable of measurement in quantitative terms, just as most academic objectives are not measurable in quantitative terms.

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of Business Administration, 1958, pp. 2-3; "Molecular Compounds Corporation," (Abridged), ICH 10F88, Robert F. Vandell and William Sihler, Harvard Graduate School of Business Administration, 1962, pp. 3-4; "The Buckeye Pipe Line Company," ICH 9F104, J. H. MacArthur, Harvard Graduate School of Business Administration, 1964, p. 2.

Some capital expenditures are made in industry for reasons other than profitability. There is no direct profit expected from air and water pollution equipment, from air conditioning the office and plant, or from carpeting and paintings for the executive offices. These projects are not measured in terms of the rate of ROI.

The major difference between the financial objectives of a business and those of colleges and universities rests on the fact that the non-profit institutions do not have stockholders and therefore there is no profitability expectation for the major portion of capital expenditures. This difference in objectives is the essence of the difference between profit-seeking businesses and non-profit organizations including colleges and universities.

2. For Strategic Expenditures in Higher Education

In Chapter II the financial objective for private colleges and universities was stated as follows: to offer to the public a particular selection of academic programs that are within the financial feasibility of the institution.[2] This objective was implicitly or explicitly considered at the institutions participating in this study. Generally, they expected auxiliary enterprises to be self-supporting and, if possible, to make a contribution to the operating funds. Since auxiliary enterprises were expected to have cash revenue in excess of cash expenses (including debt service), this might be construed as a profit-making function. Profit, as the term is used in industry, refers to the excess of revenue received or accrued over all expenses paid or incurred. It is the amount available to purchase assets or to pay dividends to owners. The financial objectives for auxiliary enterprises provide a degree of similarity with the profit function in industry. The preponderance of expenditures in higher education, however, correspond to capital expenditures in business which are not expected to provide a profit. These expenditures must be evaluated by other criteria. Non-profit expenditures are the focal point of this study but expenditures for auxiliary enterprises will also be evaluated by the model even though profitability measures could be developed for that purpose.

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[2] Chapter II, p. 24.

Academic programs and projects at the participating schools were not looked upon as income-producing. Rather, individual proposals were evaluated first for academic value and then for the economic ability of the institution to support it. At Duke University the funds for the construction of academic buildings were expected to be on hand prior to the start of the project.[3] At Hiram College and at Stetson University all new academic programs were to be either self-supporting or a replacement for an existing program.[4] At Washington & Lee University very little change in the academic offerings was anticipated but the president felt that very little room was left in their operating budget to undertake major shifts in emphasis of their program.[5]

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[3] Appendix E, p. 178.

[4] Appendix B-1, p. 106.
Appendix C-3, p. 153.

[5] Appendix D-1, p. 166.

The notable exception to the conservative approach of these four schools was observed at Lynchburg College. The need to up-grade the College was believed more important than financial considerations and, as a result, financial objectives were secondary to academic purposes. No explicit financial objective was observed and the implicit purpose seemed to be to let the financial need in the future serve to attract the required funds. The capital additions needed for the new strategies were substantial and commitments were made that may severely strain finances in the next few years. In part the financial difficulty can also be traced to gifts and grants designated for specific projects, such as a new building, when there was no source of funds for operating the building other than the operating budget. Finally, excessive use of debt has added substantially to the operating budgets for the next few years.[5(a)] Because of this long-range financial strain other institutions have taken the position that buildings will not be started until the source of operating funds is known.

It was previously pointed out that financial objectives in business usually limit the debt level of the firm through a statement of a desired ratio of debt to total assets or to stockholder's equity. In addition, there may be an acceptable ratio of interest on debt to the firm's earnings before interest. These ratios are not sufficient to determine the debt capacity in private colleges and universities. This point was discussed by two of the administrators.

[5(a)] Exhibit V-3, p. 169.

The Vice-President for Business Affairs at Lynchburg College had the following to say about debt capacity and the ability to repay debt:

> There is no scientific approach to it here as there is in industry. A company would adopt some ratio of Liabilities to Assets as a safety factor for the creditors and to insure that, in case of liquidation, there could be realized a sufficient amount to repay the creditors. Then, too, a business tries to see that it has sufficient profit to make the annual repayment schedule. Both of these serve to determine the debt capacity for a business.
>
> For a college, however, there is a serious question as to whether or not a ratio of Liabilities to Assets is a valid safety factor. For instance, can a college contemplate liquidation? In addition, there are no stockholders to whom creditors can look as a cushion for their security. In other words, there is no legal capital, only "fund balances" that may fluctuate as the college deems appropriate. This, of course, makes it somewhat difficult for a college to obtain long-term credit. More so than for a business, theoretically. So the debt capacity factor is to a large degree set by what creditors are willing to lend.
>
> Now the other factor, the ability to repay long-term debt (and to fund capital additions) from current excesses of revenue over expenses, does act as a restraint on debt capacity. Actually most banks, in lending to colleges, churches, etc., look to the alumni, friends, or to the congregation's ability to repay the debt, and to the stability of the income derived from these people. At Lynchburg College we have been able to generate a considerable amount of money through the "auxiliary enterprises" for debt repayment and capital additions. However, we have raised our student charges as high as we can, it seems to me, so that as costs continue to rise and as the dormitories that are

> filled at the beginning of the year develop unfilled space during that year, our available margin in going to become smaller and smaller.[6]

The President of Hiram College expressed the opinion that debt capacity should, in general, be limited to the size of the liquid endowment funds and liquidated value of the plant. He did not feel that plant and equipment offered much security to debt holders in a liquidation.

> I think a college is only worth its cash endowment, its liquid endowment, and the liquidated value of its buildings. Colleges aren't worth very much out on the market.
>
> . . . .
>
> . . . You don't have reputation, you don't have faculty caliber, you don't have student body or anything else to fall back on. Even a dormitory. What are you going to do with it? You can't move it. The only way you return its value is if somebody wants to buy it as a college . . . . Colleges are too big. The sale price on even a small college would be substantial. Our assets are about $12 to $14 million. Who has that kind of money to invest in this sort of property.[7]

In addition to his position that debt should be related to endowment and liquidated value of assets, he felt that the ability to repay from current sources also tended to restrain debt capacity. This latter view was shared by the other administrators.[8] The extent of the use of debt at the various schools can be observed in the Balance Sheets included in Chapters IV and VI from which the following Table III-1 was extracted.

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[6] Appendix A-3, pp. 66-67.

[7] Appendix B-1, pp. 90-91.

[8] Appendix D-2, pp. 171-172.

TABLE III-1

COMPARISON OF ASSETS AND DEBT

	Assets	Debt	Debt/ Assets
Hiram College, at 6/30/67	$ 14.0 mil.	$3.0 mil.	21.4%
Stetson University, at 6/30/67	23.4 mil.	6.3 mil.	27.0%
Washington & Lee University, at 6/30/67	32.0 mil.	1.0 mil.	3.1%
Duke University, at 6/30/66	194.2 mil.	6.0 mil.	3.0%
Lynchburg College, at 6/30/67	9.0 mil.	1.4 mil.	15.5%
Lynchburg College, estimated at 6/30/70	16.5 mil.	6.5 mil.	39.3%

While there was concern over debt capacity, the attitudes varied over the level of debt an institution should incur for purposes other than for auxiliary enterprises. At Duke and Washington & Lee no debt was to be undertaken for academic buildings or programs. At Hiram and Stetson there was a willingness to undertake debt financing for academic purposes, if it was felt that operating revenue would be sufficient to repay principal and interest. At Lynchburg College debt had been used more liberally than at any of the other institutions.

Some insight into these divergent views can be gained through an analysis of the sources of income at the five schools (Table III-2). Some interesting relationships can be observed in Table III-2 between debt levels and the amount of non-tuition income. At Duke and Washington & Lee, where large proportions of total income was derived from non-tuition sources, only about 3% of their assets were financed by debt. At Hiram and Lynchburg (6/30/67) the proportion of non-tuition income is lower and the ratio of debt to assets is higher. The figures for Stetson and the estimated data for Lynchburg as of 6/30/70 seem to contradict the inverse relationship. However, non-tuition income for Stetson for the year ended 6/30/67 was substantially higher than the average that usually was realized. At Lynchburg College, the expected non-tuition for the year ending 6/30/70 was also higher than the past average. There was a general opinion at the colleges that capital additions and major additions to academic offerings should initially be financed from income other than tuition--specifically, income from gifts and grants. Assuming a no-debt policy, growth would be limited to income from non-tuition sources. At Duke and Washington & Lee this source of income has been sufficient to minimize the need for debt financing. On the other hand, at Hiram, Stetson, and Lynchburg, expansion had to be undertaken with debt financing since non-tuition income was not sufficient to allow the desired growth of the institutions. The question that arises from this analysis is to what extent are policies concerning financing of strategic expenditures dictated by expedience as opposed to planning? Would the "no debt" policy on academic programs at Duke and Washington & Lee stand if their sources of outside income were cut off or diminished? Should Hiram, Stetson, and Lynchburg limit their growth to that which can be financed from non-tuition income? This research is not intended to answer these questions but the model is expected to provide helpful information as administrators themselves seek the answers.

TABLE III-2

COMPARISON OF SOURCES OF INCOME AND DEBT AT THE FIVE PARTICIPATING INSTITUTIONS (a)

	(1) Total Income	(2) Non-Tuition Income	(3) Percent (2) ÷ (1)	(4) Debt/ Assets
Hiram College, 6/30/67	$ 2,272,000	$ 432,000	19.0%	21.4%
Stetson University, 6/30/67(b)	3,877,000	1,212,000	31.3	27.0%
Washington & Lee University, 6/30/67	3,904,000	1,643,000	42.0	3.1%
Duke University, 6/30/66(c)	25,421,000	14,400,000	56.6	3.0%
Lynchburg College, 6/30/67	2,283,000	336,000	14.7	15.5%
Lynchburg College, est. 6/30/70	3,918,000	1,538,000	39.3	39.3%

(a) Income includes the "net excess of revenue over expenses of auxiliary enterprises."

(b) Stetson's non-tuition income from gifts and grants had only recently increased to the level indicated by the figures for 1967.

(c) Research revenue has been eliminated since it was used to pay research expenses approximately equal to the total revenue received for this purpose.

In business, long-term capital projects that are financed with debt are expected to be repaid ultimately from profit (assuming no additional investment by owners). Without a profit motive, private colleges must look to other sources of repayment. The other sources of repayment are frequently uncertain in both amount and timing. For this reason, many institutions do not look to debt as a source of financing projects unless it is of the self-liquidating type. The prevailing opinion of administrators was that, with tuition rates already considerably in excess of the rates in state institutions, there was little room to add debt service as another operating expenditure from current funds. While the model proposed in this study will be helpful in evaluating the feasibility of debt repayment, the whole concept of the use of debt by private colleges needs further research.

B. Comparison of Guidelines for Evaluation of Proposals

1. For Capital Expenditures in Business

In addition to viable objectives for capital expenditures, a policy must be set concerning the types of investments that will be favorably considered and the methods to be used in measuring the return. Businesses have been measuring return on investment for many years, both on past and expected performance. The degree of sophistication has been increasing at a rapid rate, particularly in the last ten to fifteen years, yet business still does not have the one best method. One can find companies evaluating capital expenditures by the pay-back method, the unadjusted return on investment method, the discounted cash-flow method, the net present value approach, as well as variations of all these methods. The parameters of this research do not allow a detailed discussion of the mechanics or the merits of each method; in fact, the comparison with guidelines for higher education do not seem to require it.[9]

Regardless of the method selected by a company, the intention is to relate the project's annual profit expected from the capital expenditure to the required investment.[10] The overriding evaluation, then, is the rate of return on investment. The policies in the cases analyzed varied considerably but it did provide some guidance to the organization.

Because of the crucial nature of the ROI measurement, it often overshadows other evaluations required in making capital expenditure decisions. Analyses must be made of functional aspects of investments such as market forecasts for new product sales, engineering requirements for new machinery, production capability for new plants, and many other evaluations. But all of these matters are aimed at determining the utility of the projects and at refining estimates of return on investment. The ultimate motivating objective of profit expectations in the final analysis has to be evaluated. It is with these profits that the firm achieves its growth, replaces its assets at constantly increasing prices, and rewards the owners. It is the financial objective that is of concern here.

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[9] Most business finance textbooks dealing with capital budgeting will have some discussion of the various methods. A comprehensive comparison can be examined in: National Association of Accountants, Financial Analysis to Guide Capital Expenditure Decisions, Research Report 43, New York, National Association of Accountants, 1967, Chapter III.

[10] A number of companies now use methods of measuring ROI that adjust both expenditures and revenue to reflect the fact that future expenditures and revenue have a different value to the firm from dollars spent or earned currently. This results from the fact that dollars on hand now can be invested profitably and produce more dollars. This adjustment is caused by the time-value of money which is not a major consideration in colleges and universities except possibly for the evaluation of endowment funds. While private colleges and universities may have a need for revenue in excess of expenses (in the industrial accounting sense) this is not the motivating objective. Consequently, adjustments for the earning value of money do not seem appropriate.

In order to make a decision on a specific capital expenditure, managers at various levels need the following information:

(1) Funds to be committed to the project
(2) Expected return(s) from the investment
(3) Length of life of the project, of the flow of returns, or of both
(4) Estimate of the degree of risk in the project
(5) Measure of this project's returns in comparison with other available alternatives
(6) Other non-economic factors favorable and unfavorable to the project
(7) Available funds for this and all other projects
(8) Understanding of the company capital expenditure objectives.[11]

Both in the literature on capital budgeting and in the cases analyzed, the amount of attention given to the factors listed by Johnson varied. Other types of needed information were also mentioned, however, this list points to the type of policy needed to have an effective system for evaluating capital expenditures.

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[11] Robert W. Johnson, Financial Management, 3rd Edition, (Boston, Massachusetts: Allyn and Bacon, Inc., 1966) Chapter 8.

In recent years considerable attention has been given, at least in the finance literature, to guidelines for the evaluation of risk in capital expenditure proposals. The uncertainty in proposals is viewed as affecting the degree of risk of failure of the project as well as the degree of risk to the firm itself.

From the point of view of the common stockholder the risk in capital investments is in terms of the effect the project failure (and degrees thereof) would have on earnings per share, on dividends per share, and on market value. Companies approach this part of the analysis in various ways but a method referred to in the "Consolidated Electrical Products Case" is not uncommon (Table III-3). Generally, a matrix approach was used to classify projects into four categories and within each to determine (perhaps subjectively) whether the risk is normal, moderate, or high for each category. A company then would require a higher ROI within each category as the degree of risk increased, although CONELP handled this quite loosely.

All of the methods for refinement of risk in measuring ROI ultimately are based on judgment. In the CONELP matrix (Table III-3) judgment is required to determine normal, moderate, or high risk. It is not known whether the measurement of risk is a widely used procedure but much of the consideration of this element seems to be confined to the finance literature.[12]

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[12] (a) David B. Hertz, "Risk Analysis in Capital Investments," Harvard Business Review, Jan.-Feb., 1964.

TABLE III-3 [13]

RISK CLASSIFICATION AT
CONSOLIDATED ELECTRICAL PRODUCTS COMPANY

Category of Project	Degree of Risk		
	Normal	Moderate	High
Cost reduction or replacement	Min. Std. Rate	Normal Plus?	Moderate Plus?
Plant Expansion	Min. Std. plus 5%	"	"
Major process innovation or new products	Min. Std. plus 10%	"	"
Necessary projects	Subjective	---	---

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reprinted in Capital Investment Decisions, reprint series of HBR.

(b) Harry Markowitz, Portfolio Selection, monograph for Cowles Foundation for Research in Economics, Yale University, (New York: John Wiley & Sons, Inc., 1959).

(c) Ralph O. Swalm, "Utility Theory - Insights into Risk Taking," Harvard Business Review, Nov.-Dec., 1966, pp. 123-135.

[13] "Consolidated Electrical Products Company," op. cit.

2. For Strategic Expenditures in Private Colleges and Universities

No quantitative measure corresponding to a rate of ROI was found in any of the five participating schools. Several schools had adopted policies as temporary measures resulting from previous deficits in the operating funds. Hiram and Stetson, as stated previously, were operating under the policy that all new academic programs would have to either be a replacement for an existing program or be capable of generating its own financial support. This guideline had developed from a crisis situation and was not intended to be a continuing policy. The Duke University policy of requiring that funds be on hand or explicitly identified for new academic buildings was a more permanent guideline that was understood by all administrators and academic department chairmen.

All five institutions also expected auxiliary enterprises to be self-supporting, including the repayment of debt incurred to finance the enterprise, but rates of ROI were not used as a measurement.

No clear guideline concerning debt capacity was found such as was observed in the business finance literature. While the more affluent schools, Duke and Washington & Lee, restricted debt to self-liquidating projects such as dormitories, it was not certain whether this policy would remain if growth was restricted. At Hiram, Stetson and Lynchburg debt was used but with no clear understanding among administrators as to the ultimate level of debt. Although there was concern about excessive debt, and perhaps a general feeling that there was a ceiling, no guidelines had been spelled out for guidance in the planning process.

The risks to private education has been discussed in the press at great length and an awareness of the dangers was noticeable in the comments of all administrators.[13(a)] The ultimate risk from a strategic expenditure was discussed at length by the Vice President for Business Affairs at Lynchburg College.

> Certainly excessive debt can result in prolonged demands which may mean that current revenue is not sufficient to pay current expenses and retire indebtedness. When this happens most private colleges follow the practice of initiating special campaigns "to pay off the debt." Today, a lot of people are talking about the increasing difficulty for successful campaigns in face of the large sums colleges are procuring from federal sources. People are seemingly not as interested in giving to colleges since they feel that the colleges can get much of their needed money from the government. What they don't realize is that very little operating money is available from federal sources, and none for debt retirement.
>
> If you assume that a college could not repay its debt from current funds and it could not raise necessary funds in a campaign, then you might say that there is the risk of having to liquidate without a ready market for a college or college property. Perhaps the State of Virginia represents the best market. That's how Frederick College was liquidated. It was donated to the state. Selling to the state might be a different question. By this I mean if we sold the College, the Charter requires that all assets be used for educational purposes, so we would have to keep any sale proceeds in excess of liabilities employed in some other educational institution. We could give it to one of the other schools related to the Disciples but we certainly are not required to. In a sense we might as well donate the College to the state system and let them pay off the debt as they were

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[13(a)] Business Week, September 21, 1969; cf. Fortune, February, 1967; The Chronicle of Higher Education, various issues.

> willing. Of course, with a budget that is almost totally "fixed," there is always a danger that it can't be reduced if a substantial decline in revenue was to occur. We have to be careful that we don't add to our budget faster than our income will allow.[14]

Even though explicit policies had not been developed, the financial risks apparent in the five participating schools can be categorized as follows:

(a) Rapid expansion of programs could exceed the ability to finance them,

(b) Sources of gifts and grants would not increase as fast as the increase in operating costs,

(c) Competition from state-supported institutions, particularly the two-year community colleges, may tend to reduce enrollment or at least reduce the pool of applicants.

(d) Public interest in private higher education may diminish due either to the changing values in society or to a decline in the quality of education resulting from the competitive conditions in (c).

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[14] Appendix A-3, pp. 67-68.

The President of Hiram College commented along similar lines in a discussion of the ultimate risk of liquidation, Appendix B-1, pp. 90-93.

C. Identification of Organization and Information System

1. For Capital Expenditure Management in Business

An efficient system for managing capital expenditures requires a policy statement identifying the involved positions in the organization. The "International Harvester Company Case" illustrates one company's organization for managing capital expenditures.[15] Their process was in "two distinct preliminary stages; compilation of the capital budget and the actual appropriation of funds." In the budgeting stage, managers at lower levels were expected to identify projects that they wished to submit for funding over various periods of time. The budgets went up through channels of a conventional "pyramid" organization to a "finance group," through the Controller for Capital Budgets, the Corporate Operations Review Committee, and to the Board of Directors. These approved budgets became the source of financial planning at the corporate level.

The approved budgets were not authorization for expenditures. This was obtained in the second stage by a routing through approximately the same channels. Approval of the request constituted the appropriation of funds. As a follow-up on the system, International Harvester operated a loose, post-completion audit procedure. Procedures for budgeting and appropriation were spelled out in a "Capital Expenditure Policies and Procedures Manual."

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[15] Robert Anthony, John Dearden, and Richard F. Vancil, Management Control Systems, (Homewood, Illinois: Richard D. Irwin, Inc., 1965), pp. 493-506.

Developing a formal organization to process capital expenditures does not accomplish the purpose of getting people at various positions in the company involved in the management of these capital investments. People have to be assigned to the slots in the organization and their role must be spelled out. In larger corporations, this assignment is a policy matter involving position descriptions which include statements specifying individual's roles in the system of managing capital expenditures.

Operating managers such as division managers, production managers, or sales managers will have, as part of their duties, responsibility in the capital budgeting process. These people are relied upon for many of the ideas for cost-saving investments, new products, new production processes, new sales offices, and for much of the innovation necessary for a successful firm.[16] They usually initiate the request for a large portion of the capital budget and make the initial estimates of return on investment.

At other levels in the organization, staff engineers and accountants will check proposals from operating personnel and compile such proposals into a budget for the corporation. This budget will often be scrutinized by committees and revised as necessary. The chief operating officer usually has final approval of the budget that is to be submitted to the Board of Directors. The method of financing generally is determined at the corporate level prior to submission to the directors. The "International

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[16] Robert F. Vandell, "The Capital Allocation Process," U. VA.-F-121, 1966, p. 4.

Harvester Company Case" previously referred to offers a comprehensive policy in this area and generally illustrates the type of responsibility at various levels.[17]

2. For Strategic Expenditure Administration in Private Colleges

In contrast to the reasonably clear lines of responsibility and authority in business, the organizational structure in higher education is diffused among three decision-making groups.

Formal organization charts for each of the five institutions can be found in the data pertaining to the work at each school[18] but there is wide disagreement as to who the decision-makers are in higher education and it is doubtful that the charts tell an accurate story about responsibility and authority in all policy areas. The two major policy areas under dispute are concerned with educational policy (academic affairs) and financial affairs (including asset management). To some degree responsibility and authority is claimed in these two areas by trustees, by the president (administration), and by the faculty. To provide insight into the relationships, various opinions from the literature are discussed in the following paragraphs. In addition, the attitudes prevailing at the participating schools are compared with the findings from the literature.

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[17] Anthony, Dearden, and Vancil, op. cit.

[18] cf., Exhibit IV-3, p. 127
Exhibit VI-A3, p. 192
Exhibit VI-B3, p. 214
Exhibit VI-C2, p. 233
Exhibit VI-D2, p. 247

The President. The role of the college president has evolved as has the institution itself. In the beginning most of the presidents of the colleges were drawn from the clergy because they were the learned men of the day. Since the early schools were formed partly to educate ministers, this also seemed to require that the college president be a member of the clergy. In the latter part of the 19th century, as institutions became larger and more diverse with greater decentralization in purpose and in organization, these presidents from the clergy were considered inadequate to the task of administering the sprawling universities. This inadequacy was not caused by intellectual ineptitude but by their inability to cope with the complexities of managing people, raising funds, dealing with politicians, disciplining students, and all the other tasks that confronted the college president.[19]

Rudolph has this to say about the college president around the beginning of the twentieth century,

> Actually the college and university president was on the way to being someone...whose remoteness from the students would be paralleled by his remoteness from learning itself.
>
> The office increasingly...called for a ...manager who could perform for higher

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[19] Frederick Rudolph, The American College and University, (New York: Alfred A. Knopf, 1965), Chapter I.

> education those functions which elsewhere in American society were being performed by the captains of industry and the captains of finance.20

And in another place,

> The clergyman president went into discard because he lacked skill in the ways of the world, because his commitment to the classical curriculum stood in the way of the more practical and popular emphasis which commended itself to the trustees, and because the world in which the colleges and universities now moved was more secular, less subject to religious influences.21

So the status of the clergy in the president's office diminished as the colleges and universities entered the twentieth century. The universities themselves, with their size and complexity, created a need for administrators and during the period 1890-1925, the transition was particularly noticeable.[22]

The job of the college president is discussed by John J. Corson who claims that the college president shares the opportunity and authority of decision-making.[23] He shares with the faculty the opportunity to make decisions regarding the educational programs, "_if they allow him to participate_." He also points to the fixed nature of the faculty salaries which means that the president cannot use the budget to

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[20] _Ibid_., p. 418

[21] _Ibid_., p. 419

[22] It is interesting that Lynchburg College was founded during this time by a clergyman, Dr. Josephus Hopwood.

[23] Harris, _op_. _cit_., pp. 235-237

influence materially the course of education. He can influence only additions to the program. He shares with the trustees those responsibilities delegated to him by the trustees; these responsibilities may differ from one school to another. He shares responsibilities with alumni in larger institutions for such things as athletics, fund raising programs, and so forth.

In the Corson article, it is predicted that in the future some presidents, if not all of them, will not be able to function as educators at all, and it would be futile for them to try. Their role will be that of administrators of educational programs in an educational institution, but the president himself seems to be evolving to a role outside the educational purposes of the institution he administers. Although the president's authority and responsibility is delegated to him by the governing board, few boards and presidents are as dogmatic as they are empowered to be by the charter and by-laws of the institution.[24] In many cases they condone or allow faculty practices that may or may not be contributing to efficient operations.

While none of the presidents at the five institutions in this study felt they had the authority to install educational policy without faculty agreement, several of them did see a role for themselves in initiating new ideas and promoting them through faculty committees or through academic departments.[25] None of them felt he had the authority to give final approval to major changes in the academic programs; rather, they believed that they should carry their recommendations to the board of trustees. At Duke, proposals for a separate Graduate School of Business Administration had been initiated by a faculty group, discussed and approved by a faculty committee, and recommended by the president to the board of trustees. At Stetson, the International Studies Program had been conceived by the president, suggested to the faculty, and carried to the Trustees for final approval. At Lynchburg College, the Graduate Division was a joint recommendation of the president's office and interested faculty groups. It was discussed by a faculty committee and recommended by the president to the Trustees. Additions and deletions of courses in the schools seldom were brought to the attention of the Trustees or even the president unless special financial considerations were involved.

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[24] Mary Woods Bennett, "Changes within Liberal Arts Colleges," Emerging Patterns in American Higher Education, Logan Wilson, Editor, (Washington, D. C.: American Council on Education, 1965), p. 64.

The president's control over financial matters is limited by tenured appointment of faculty members. Once tenure is offered, there are fewer options available to the president in the preparation of the annual budget.[26] The president at Hiram College expressed the opinion that offering tenure to a professor is one of the most expensive decisions facing college administrators.[27]

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[25] Hiram, Appendix B-1, p. 94.
Stetson, Appendix C-1, pp. 139-141.
Washington & Lee, Appendix D-1, pp. 160-161.
Lynchburg, Appendix A-1, pp. 17-21, and 23-25.

[26] Appendix D-1, pp. 164-165.

There was little question that each of the presidents had the responsibility to propose each year the annual operating budget, capital budget, and related financial projections. It was the trustees' ultimate responsibility to approve the budget but its implementation rested with the president. Control over expenditures during the year generally was also delegated by the trustees to the president. The conflict between academic and financial affairs arises because the decisions by the faculty concerning educational policy frequently have financial considerations.

A major responsibility of the president is to resolve, or at least minimize, the conflict between the academic policies of the faculty and the financial policies of the trustees. The college president's authority may be stated in the charter and he may occupy a position on the organization chart similar to that of the corporation president but he cannot administer his office with the same degree of authoritative power. His importance is not derived from an authoritarian position but from his role as an innovator, a coordinator, a molder of attitudes and objectives, and as a caretaker of resources. He may also be a fund-raiser and the public image of the institution.

The president's role in the long-range planning process was spelled out in one authoritative document as follows:

> As the chief planning officer of an institution, the president has a special obligation

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[27] Appendix B-1, pp. 84-85.

> to innovate and initiate. The degree to which a president can envision new horizons for his institution, and can persuade others to see them and to work toward them, will often constitute the chief measure of his administration.28

Because of his role as an innovator, molder of attitudes, and as the caretaker of resources, much of the initiative for strategic changes originate in the president's office and, for this reason, the financial planning model proposed in this study can best be utilized by the president and his top administrators.

The Trustees. The trustees represent still another center of authority and responsibility in an institution of higher learning. In the early institutions, many of the trustees were clergymen for much the same reasons that presidents were clergymen. The ministers in the early days played a prominent role in the life of every community. He was looked to for many decisions and many roles that were by today's standards somewhat remote from his status as a clergyman. Interestingly enough the role of the trustee today is viewed as that of a policy-maker, and we now think of businessmen as having considerable competence in this area.[29]

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[28] "Statement on Government of Colleges and Universities" issued by the American Association of University Professors, the American Council on Education, and the Association of Governing Boards of Universities and Colleges; reprinted in The Chronicle of Higher Education, January, 1967; also reprinted as a teaching note by the University of Virginia Graduate School of Business Administration with permission of The Chronicle of Higher Education, UVA A&P-1, p. 5.

[29] Rudolph, op. cit., p. 173.

The legal organization of trustees has evolved in one of two ways. The first example is exemplified at Harvard where the governing board itself is incorporated, and this board constitutes the body of the corporation with the assets of the corporation being held in the name of this incorporated body. The other approach has been to incorporate the institution with the governing board serving as the responsible agent.[30]

William S. Paley in his report entitled, The Role of the Trustees of Columbia University identifies several major legal responsibilities of trustees.

1. To select and appoint the president of the university.
2. To be finally responsible for the acquisition, conservation, and management of the university's funds and properties.
3. To oversee and approve the kinds of education offered by the university and make certain that its quality meets the highest standards possible.[31]

Another writer, Gerald P. Burns, quotes Ordway Tead concerning the role of the trustee. "Trustees are, of course, in the last analysis, holding the operation of education *in trust as a public service*. Every college has now become in fact a public agency; and it is required to gain and hold public confidence."[32] In the private institution the trustee must resolve the issue of his public responsibility which may be opposed to the desires of faculty, administrators, students, the church sponsor, or other interested factions. Burns refers to the power of the board as collective, democratic, not executive, and as legislative.

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[30] Burns, *op. cit.*, pp. 5-14.

[31] *Ibid.*, p. 133.

[32] *Ibid.*, p. 12.

When a group of trustees were asked whether or not they should consider questions on admissions policy, ratio of faculty to students, etc., their general answer was that they should not concern themselves with educational issues. They considered these specialized matters and solely the problems of the faculty and dean. They felt that they had no obligation as trustees to consider them.[33]

> The governing board of an institution of higher education, while maintaining a general overview, entrusts the conduct of administration to the administrative officers, the president, and the deans, and the conduct of teaching and research to the faculty. The board should undertake appropriate self-limitation.34

Most writers agree that trustees have ultimate responsibility for the control and management of the institution, but their role in educational policy is not as precise. By custom they have remained aloof from educational policy, relying on the faculty. In addition, even when we acknowledge trustee's responsibility for finances, public relations, and legal matters, it is not certain in private institutions to whom the trustees are responsible unless they are asked by a church body to account for their action. Historically the denominations have not pressed for accountability and have tended to look upon their colleges as another agency demanding scarce church funds.

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[33] Harris, op. cit., p. 235.

[34] "Statement on Government of Colleges and Universities" UVA A&P-1, op. cit., p. 5.

In state institutions the governing board is responsible to the state government: either the governor or the state legislature. This accountability is, in fact, an operating responsibility with specific policies as to what type of control and what type of responsibility is expected of the governing board. But in the private institution there is no such body to whom the trustees are responsible. They are responsible in a legal sense to the state for the conduct of the institution as stated in the charter under which it was incorporated. But beyond this minimal responsibility, and remembering that charters are usually worded in general terms, there is nothing to specify a competent higher authority.

When one adds to this lack of higher authority the fact that there is no measure of efficiency or effectiveness available to the trustee in evaluating the institution, the dilemma is very quickly recognized. It is little wonder, then, that boards of trustees very soon become advisory boards and presidents get board action through consensus opinion rather than through formal board action.[35] This method of operation may continue until a crisis situation arises that forces trustees to become involved.

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[35] Burns, op. cit., p. 12.

An effective president is able to sway individual board members particularly since the president probably recommended the trustee's appointment. This places the president in the position of "_de facto_" authority and makes him responsible for the conduct of the institution. Only in some act that is diametrically opposed to the broad purposes of an educational institution or that is cause for public disfavor would a college president find difficulty with his board.

In examining the _Minutes of The Meeting of The Board of Trustees_ at Lynchburg College for a period of 30 years no evidence was found that the Board had decided against the wishes of the president. In discussions with administrators at the College, however, it was learned that a number of controversial issues had caused heated discussions but in the final analysis the Board and the president came to agreement. Generally, it had been the practice of the various presidents to sound out members of the Board on difficult issues prior to the meetings. This was done informally as well as through the Board's committee structure. It was the opinion of the current president that strong committee work should assure him of a favorable vote to his recommendations. It was his feeling that an adverse decision on a significant issue should be interpreted as a lack of confidence.[36]

At Washington & Lee educational policy matters had been effectively delegated to the faculty by a resolution of the Board but the Board's overall responsibility for the operation of the institution was recognized.[37] At Duke the size of the academic program minimized the involvement of the Trustees in educational policy. They tended to accept the recommendations of the formal committee system that reviewed academic proposals. At Hiram and Stetson the trustee's role in academic affairs was not looked upon as his major responsibility. At Hiram, trustees were selected for their sound business leadership, for their financial position, for their prestige, and for their willingness to take an active part in the affairs of the institution.[38] At Stetson the role of the trustee was in the process of changing from that of a significant financial contributor to one of providing leadership in all phases of the University's operation.[39]

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[36] Appendix A-1, pp. 23-24.

The findings at the five participating institutions tended to substantiate the role of trustees as stated in the literature. In the area of financial affairs the Trustees were the final authority but they looked to the president and his staff for operational support as well as for innovative ideas. Educational policy was of concern to the trustees only when it was involved in the total operation of the school and when major changes in program were contemplated. Within these broad parameters, educational policy had been effectively delegated to the faculty.

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[37] "The Self-Study Report of Washington & Lee University" 1964-66 (unpublished), p. 3.

[38] Appendix B-1, pp. 108-109.

[39] Appendix C-1, pp. 144-145.

The Faculty. The decision-making process in higher education is diffused in a third direction by the faculty role. The attitude toward faculty involvement in administrative matters varies from school to school with several factors contributing to the degree of involvement. Some schools adopt the approach that faculty members have academic freedom, tenure, respect of their colleagues, respect of the community in which they live, and professional recognition within their discipline, all of which make it at least desirable for administrators to seek their opinion on educational policy matters whether or not there is any real responsibility to ask for these judgments.[40]

In attempting to clarify the areas of authority and responsibility in small colleges, Beardsley Ruml saw the role of the faculty relegated to the lowest position in relation to the administration and trustees. Even in regard to curriculum and educational policy he states:

> The liberal college faculty as a body is not competent to make the judgments and evaluations required to design a curriculum in liberal education. The individual members of the faculty are for the most part chosen as specialists in departmental subjects, and as a result both of knowledge and personal interest each is a special advocate, necessarily and desirably so. A collection of special advocates cannot be expected to be a repository and a voice of judicial wisdom.
>
> . . . .
>
> The trustees of a college choose unwisely when they refer the problem of

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[40] Harris, loc. cit.

> curriculum for decision to the corporate faculty. They choose unwisely, and yet the responsibility for the curriculum still remains of necessity with the Trustees.41

Ruml's position on relative responsibility is further identified:

> The Board of Trustees has in fact final responsibility under its charter for the educational program as well as for the property of its institution. Having final authority and responsibility, it also has accountability for a performance it is willing to defend to the state, to the national and local community, to donors of property, to parents and students, to the individual members of the faculty who have committed themselves and their families to an educational and intellectual program as their way of life.42

An additional, and contrasting, opinion on the subject of faculty authority is given by David Fellman, Professor of Political Science, University of Wisconsin. He quotes from the AAUP, 1915 Declaration of Principles as follows:

> ...although professors are the appointees of the university's trustees, they are not in any proper sense the trustees' employees, just as Federal judges are appointed by the President without becoming, as a consequence, his employees.43

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[41] Beardsley Ruml and Donald H. Morrison, Memo to A College Trustee (New York: McGraw-Hill Book Co., Inc., 1959), p. 7.

[42] Ibid., p. 13.

[43] Dobbins and Lee, op. cit., Article by David Fellman entitled "The Academic Community: Who Decides What?," p. 108.

Quoting again, this time from the AAUP Bulletin of June, 1960, Fellman says,

> ... the basic functions of a college or university are to augment, preserve, criticize, and transmit knowledge and to foster creative capacities.... These functions are performed by a community of scholars who must be free to exercise independent judgment in the planning and execution of their educational responsibilities.[44]

Fellman carries his point still further, "Although the language of the charters or the parent statutes implies that the boards are theoretically all-powerful, normally this is not descriptive of the realities in the educational world.[45] As reasons for this limitation of authority, he states that boards are usually too large and are forced to "rubber stamp" committee recommendations; they have too few meetings to keep abreast of conditions and issues; they generally accept the recommendations of the president; and they are too deeply involved during their brief time in session with finances, property management, and public relations to demonstrate much concern over educational matters.[46]

Fellman's strong position gives more power to the faculty than is typical of other writers just as Ruml gives more weight to the governing board. The joint "Statement on Government of Colleges and Universities" was less inclined toward general statements of faculty responsibility than it was in its position on the governing board and the administration. Instead the joint statement identified specific areas of faculty responsibility--curriculum, methods of instruction, research, student life as it pertains to the educational process, degree requirements, faculty appointments, tenure, and dismissal. These specific areas of faculty responsibility and authority had recognizable limits. "Budgets, manpower limitation, the time element, and the policies of other groups, bodies, and agencies having jurisdiction over the institution may set limits to realization of faculty advice."[47]

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[44] _Ibid._, p. 109.

[45] _Ibid._, p. 114.

[46] _Ibid._

Fellman's reference to academic freedom stimulated an examination of the literature that resulted in the general opinion that academic freedom, as it exists today, is relatively new, existing possibly only since about 1900.[48] Prior to this time professors' freedom seemed to be restricted to the right to teach his subject in the manner he saw fit, and only that. In colonial days, even rights to publish and speak freely were restricted by the customs and opinions of the day as interpreted by the institution. Certainly no faculty member was allowed to say or do things that deterred or detracted from the mission of the institution. In those days the teacher's professional standing did not generate from his teaching but from his position in law, medicine, or the clergy.

The range of matters in which teachers feel they have academic freedom has been expanding constantly and, with the formation of the American Association of University Professors in 1915, the range was increased substantially. The matters included are far smaller if viewed from the perspective of either the administration or trustees. Again, no universally accepted definition of academic freedom can be offered although the 1940 Statement of Principles by the American Association of University Professors has been adopted as the official position of a large number of institutions as well as academic associations.

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[47] "Statement on Government of Colleges and Universities," UVA A&P-1, op. cit., p. 6.

[48] Rudolph, op. cit., pp. 410-416.

At Duke University one administrator was quite definite about the autonomy of the faculty.

> Academic policy is entirely the responsibility of the faculty.... The trustees only get into academic decisions when major program changes are under consideration such as the School of Business Administration proposal and the School of Computer Science.[49]

The President of Hiram had this to say about the dual system for decision-making:

> [Hiram College is] Faculty-oriented. It is not a cleavage though. I think the faculty dimension is not a stronger dimension than the administrative dimension. There have been faculty people who were critical of the "Task Force" [A study of the changes proposed in degree requirements.] which was not my idea. It really came out of the faculty. It is forcing them to do some thinking and they find it difficult. I tell them that if they don't want it, we will run the kind of school they do want.[50]

At Stetson, President Geren was attempting to unite the school and did not see the clear lines of demarcation that other administrators suggest:

> This is an objective, too, to become a university, not just four warring camps. I

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[49] Appendix E, p. 179.

[50] Appendix B-1, p. 103.

> would say that it might be easier to divide and conquer the faculty in terms of specific objectives but there are other objectives including this strong spirit of unity which you really can't accomplish unless you move together.[51]

Speaking on the opinion that educational policy should be set by trustees, Geren said:

> Only in the very broadest sense, that is, if you are going to have an integrated school, I think the inspiration will come from the faculty but the president has to get trustees to go along. In other words, I don't see how you can make that decision without getting the approval of the trustees.[52]

At Washington & Lee University, President Huntley saw the faculty role as follows:

> The faculty is a very strong force on this campus. I don't want to overstate this. I am not sure anything happens here without the faculty participating in it. The budget is actually adopted only after faculty needs are satisfied. No faculty committee consults about the budget but it's a strong indirect influence. The faculty is entrusted with the responsibility for deciding on all the educational goals and decisions. Of course, the Board of Trustees has final authority on everything.[53]
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> . . . .
>
> The faculty would have to initiate this [a new Master's Program.] The Board's approval would be sought after the faculty had passed

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[51] Appendix C-1, p. 140.

[52] Appendix C-1, pp. 145-146.

[53] Appendix D-1, p. 154.

> the plan. Based on experience, I would assume that the Board would be very unlikely to veto the faculty.54

It should be noted that department chairmen at Duke did have considerably more financial information than at the other schools.[55] This information included data on the salaries of their faculty and general information about the total university budget. While it was available to department chairmen, and they most likely considered the effect of a new course or program on the financial position of the University, this restraint was not required as part of the proposal to the curriculum committee. Financial responsibility at lower levels at Duke probably resulted from the University's larger size and organizational complexity which required the delegation of responsibility and authority. To some extent, the department chairmen, or at least the deans of individual schools, had comparable responsibility and authority to the president of smaller institutions.

3. Conclusions Concerning Organization and Decision Making in Higher Education

In spite of the possible conflict in the dual system for educational policy, there was on all campuses a general understanding of what was expected from the faculty as well as the administration. There was some evidence, however, that a communications break often occurred when the financial feasibility question was raised with respect to curriculum changes.

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[54] *Ibid*.

[55] Appendix E, p. 178.

The point can also be made, based on the interviews with four different presidents, that their style of leadership had much to do with the relationship with both the faculty and the trustees. This comes out clearest in President Brewer's comment that he believed in strong executive leadership. President Jagow's concern for his "non-academic background" called for a different type of leadership. The style of leadership was seemingly as crucial to faculty/administration relations as was substance of the program changes recommended by the four presidents.

From writers representing faculty, administration, and trustees, it is possible to generalize that such matters as approval of finances, property management, and public relations are the responsibility of the trustees but initiating action and the recommendation and implementation of policy are generally delegated to the president. Also, individual faculty members have the freedom, and with it the responsibility to conduct their classes, their research, their writing, and their speaking engagements in the manner of their choosing. Between these two poles, however, there exists a range of matters generally referred to as educational policy which is claimed by each side but with full awareness of the presence of the other.

Although it seems safe to say that financial matters of an institution are within the control of the president and ultimately trustees, it is true that the fixed nature of the operating budget minimizes their influence in financial aspects of the educational program.

The factors governing jurisdiction over educational policy seem to be mostly subjective, such as: prestige of either the faculty, administration, or trustees; relative forcefulness of each; customs or precedence within each institution; the administrative competence of the president, or the prevailing attitudes of the academic world at that point in history. The college president plays an important role in shaping this relationship and, in fact, the success of his administration may well depend on his awareness of the "power-structure" that exists within his organization and how well he is able to shape it to the constructive ends of carrying out strategies.

It is also apparent from the research that strategies to realize institutional missions are the result of stimulus from the president. The faculty serves the important role of sharpening the focus and providing new insights but seldom in originating strategy. These general conclusions indicate that the focus of this research should be on the college president, since his office is the origin of the "action plans" that result in strategic expenditures. He works with the faculty in carving out realistic educational strategies and with the trustees in identifying and allocating resources to these strategies. As the "hub of the tandem" he must stimulate the entire organization.

The field research at the five participating schools tended to substantiate the conclusions of the literature concerning the diffused nature of the decision-making process. While no definitive recommendations can be offered to eliminate this situation, and perhaps none should be, there does seem to be reason for continued study of the organizational complexity in colleges and universities. The job of administering a college is made more difficult by the uncertainties created by the decision-making process. The diffusion makes it even more important that attention be given to the problem of relating academic purposes to financial feasibility. "The framing and execution of long-range plans, one of the most important aspects of institutional responsibility, should be a central and a continuing concern in the academic community."[56] The financial planning model proposed in this study is intended to strengthen the overall planning process by providing an instrument through which the strategies for accomplishing the faculty's academic objectives can be related to financial feasibility as appraised by the trustees.

II. PROCEDURES

Since the purposes of this study deal with the planning stage of the management process, the procedural aspect of the management of capital expenditures in industry and strategic expenditures in higher education will only be treated briefly. The following statements are general observations rather than documented facts from the research.

A. Initiation of Project or Program Proposals

In industry great effort is made to get managers at all levels to present ideas for new capital expenditures which will provide a return on investment. Considerable attention is given to this step in the procedures for managing capital investments in order to provide a flow of creative ideas with which the firm's growth may be assured.

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[56] "Statement on Government in Colleges and Universities," UVA A&P-1, op. cit., p. 3.

The financial analysis of a proposal is initially undertaken by the individual or group who recommends a particular expenditure.

In higher education only academic programs originate in the lower administrative levels of the faculty. Departments or department chairmen may originate ideas for new academic programs but they seldom are required to consider financial implications. Capital expenditures, on the other hand, usually originate at the upper administrative levels. At Duke University it was observed that on occasions an academic department would propose a capital expenditure for academic purposes. When this occurred, the originating group was asked to determine the source of financing prior to making the proposal. With this exception, all other strategic expenditures were evaluated for financial feasibility at the top level.

B. Initial Screening of Programs or Projects

In industry there is frequently the requirement that capital expenditures be screened at a lower management level by a controller, a screening committee, or a similar group. The function at this point is to evaluate the accuracy or reasonableness of the proposal.

In higher education only academic considerations are considered at this level--by a curriculum committee or its equivalent. Financial matters are evaluated at the top level only. Again, it must be noted that frequently financial implications are considered by a lower level administrator as he sits on the academic committee for evaluation of a proposal. In reality, many of the academic departments at Duke are as large as the smaller schools participating in this study and the chairman or dean of this department or school may have financial as well as academic responsibility. Even at Duke, however, the screening step took place at the top level.

C. Analysis of Risk

This emerging concept, when it is evaluated in industry, is included in the other analysis of the project. The degree to which risk is quantitatively analyzed in industry is unknown but certainly some intuitive consideration is given in most corporations.

Neither was there a systematic attempt in the five participating schools to measure their risks quantitatively. On the other hand, there was evidence that every administrator was aware of eminent risks facing private colleges and universities and all major decisions were to some degree affected by the risks as they saw them.

D. Selection of the Most Advantageous Projects

For businesses with more capital than is needed, this is simply a matter of accepting all projects that provide an acceptable return on investment. When there is a shortage of capital, the cut-off may occur at a rate higher than the acceptable rate of return. As was stated earlier in this chapter, not all projects are accepted based upon a rate of return. Subjective factors may become the deciding factor in selecting the most advantageous project.

In higher education the selection of new programs or projects for the allocation of capital is generally made on subjective academic values. The allocation of capital is frequently a question of deciding upon the academic merits and, if acceptable, locating a source of financing, either internal or external to the institution. No quantitative analysis of the allocation process was observed at the participating institutions.

E. Final Approval of Programs or Projects

F. Appropriation of Funds to Projects

In major corporations there is usually a procedure whereby smaller capital expenditures can be approved by division managers or other level executives. Major investments, however, generally require the approval of the board of directors. This is similar to the experience observed in the schools of this study. Smaller projects were included in annual budgets and appropriated by lower level administrators after the annual budget had been accepted. Major strategic expenditures were always expected to be submitted to the board of trustees for final approval.

G. Post-Audit of Financial Performance of Projects

This is only an emerging technique in industry which needs further study. No procedure for post-audit was observed in the five schools.

III. GENERAL CONCLUSIONS

Several conclusions can be drawn based on the previous analysis. First, the financial objective for private colleges is not profitability but solvency. This conclusion can now be inforporated into the total mission of a private institution stated previously--to offer to the public a particular selection of programs and courses as identified by the faculty and deemed financially feasible by the trustees.

Second, there was no single quantitative measure observed at any of the schools or discussed in the literature that related financial commitments to the objective as the rate of ROI does in industry.

Finally, the organization in higher education is not clearly defined, reflecting responsibility and authority, as it is in industry. The trustees are generally credited with financial responsibility, the faculty has the responsibility for the academic policy of the institution, and it is the function of the president and his administration to coordinate these two groups and to stimulate action. Because of his role in initiating action and innovation, it will be his function to apply the proposed financial planning model.

CHAPTER IV

DEVELOPMENT OF THE FINANCIAL PLANNING MODEL AT LYNCHBURG COLLEGE

History and Characteristics of Lynchburg College[1]

Like any other organization, Lynchburg College has been greatly affected by its history. This history was a constant struggle to remain solvent and to provide quality education based on a Christian heritage.

Since its founding in 1903 Lynchburg College has had five major presidents, all of whom were selected from the Disciples of Christ Church constituency. The first president and founder was Dr. Josephus Hopwood. He and four other interested members of the Disciples denomination promoted the founding of the school as Virginia Christian College.

Hopwood's administration spanned a period of eight years from 1903 to 1911. During this period enrollment ranged from 150 to 225 students and, with no other source of income, the financial condition of the school was constantly in jeopardy. By 1908 assets had increased from the initial investment of $13,500 to $111,000 with liabilities of $4,573.

Virginia Christian College was founded by men with the strong belief that there should be a close relationship between the church and private education. It was initiated during a period when American higher education was entering a period of transition; toward greater emphasis on state-supported education and toward a higher degree of professionalism for teachers.[2]

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[1] Data in this section is summarized from: Orville W. Wake,"The First Fifty Years, A History of Lynchburg College," unpublished doctoral dissertation, University of Virginia, 1957.

J.T.T. Hundley, the former financial secretary, became president in 1915. The school's name was changed in 1919 to Lynchburg College. Under Hundley's leadership, enrollment increased from 67 to a high of 299 in 1934. The endowment funds grew to $289,000 (cost) and the value of the property and plant reached $549,000 with total debt of $210,000. Tuition rose from $75 per student to $216. Perhaps the most significant achievement during Hundley's 21 years in office was accreditation received on February 2, 1927, from the Southern Association of Colleges.

With Hundley's retirement in 1936, Dr. Riley B. Montgomery became the third major president. The challenges facing Montgomery early in his administration were in three forms. The rising debt level was again threatening the College (Exhibit IV-1), the morale of the College's faculty, staff, and constituency was at a low level, and World War II seemed imminent. The high debt level caused the Southern Association of Colleges to place the school on probation on April 30, 1938.[3(a)] As a result, Montgomery launched a long-range

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[2] Rudolph, op. cit., pp. 417-420.

[3(a)] This result from an excessive debt level creates an even greater need for study of debt capacity in private colleges and universities. The following statements from Orville W. Wake's dissertation (p. 258) indicates the potential danger facing the accreditation of an institution.

> When the College was admitted to the Southern Association of Colleges and Secondary Schools in December, 1927, it was given membership upon the

campaign to totally retire the debt which ended successfully in 1946. During the campaign, in 1942, the Southern Association removed its probation stricture which tended to improve morale. The faculty's morale was boosted earlier by the policy for tenure adopted by the Trustees.[3(b)]

> condition that the College would reduce its indebtedness. When the Examining Committee of the Southern Association made its investigation of the College in 1933-34, it complimented the academic program but looked with concern upon the debt. Since the College was unable to reduce its indebtedness it was placed on probation by the Southern Association on April 30, 1938. This probation was made even more definite on December 15, 1941, when M. C. Huntley, Executive Secretary of the Southern Association, wrote President Montgomery that:
>
> > ...the recommendation of the Committee on Reports was as follows:
> > "The Committee voted to continue the institution on probation for failure to meet the standards of the Association."
> >
> > "A minimum reduction of indebtedness to the amount of $50,000 will have to be made by December, 1942."
>
> The challenge of the debt was clear.

Dean John M. Turner of Lynchburg College, who has served as an examiner for the Southern Association on numerous occasions, indicated that schools had been placed on probation for excessive debt on several occasions, although the Association seldom publicizes the reason for probation. He stated that frequently the examining committee would apply probationary strictures for the good of the school and to awaken trustees to the dangers of excessive debt.

An examination of the standards for accreditation set by the Southern Association made no specific mention of debt levels but did make general statements such as the following, "Planning should include specific projections of income from each source, specific plans for major categories of expenditure, and plans for the increase of capital resources." (Standards of The College Delegate Assembly of the Southern Association of Colleges and Schools, 795 Peachtree Road, N.E., Atlanta, Georgia, 30308, November 29, 1967.)

[3(b)] Wake, p. 276, and Minutes of the Meeting of the Board of Trustees of Lynchburg College, February, 1937, on file at Lynchburg College.

Montgomery was succeeded in 1949 by the fourth major president, Orville W. Wake. When Wake began his administration the College had changed somewhat from its traditional liberal arts position with a strong religious flavor toward a pre-professional institution offering vocational courses and majors in business, teacher education, music, ministerial training, and other vocational interests. The Korean War reduced enrollment and caused a deficit in 1950-51 (Exhibit IV-1). In the midst of the financial crisis the college received a gift of $570,000, its largest single gift to that date. It was used to build a new library and to increase the College's liquidity but probably more important than the tangible benefits was the boost to the morale of those associated with the College. For the first time there seemed to be some assurance of permanence. New emphasis and spirit was noticeable and Lynchburg College took on more importance to the faculty and staff, the local community, and the church constituency.

Further expansion seemed to result from the gift. When Wake resigned in 1964, assets were valued at $5,920,000, debt was $907,000, 766 students were enrolled, and the market value of the endowment funds was $2,076,000 (Exhibit IV-1). In that year Dr. M. Carey Brewer became the fifth major president and is currently in office. Shortly after assuming office, Brewer led the Trustees to adopt the most dynamic and far-reaching program of expansion ever attempted by the school, estimated at a cost of $10 million.

The administration of the College was reorganized into three major functions--academic affairs, business affairs, and external affairs (development) (Organizational Chart, Exhibit IV-3). The research center was not added until 1967-68.

Within the academic affairs function, divisions were organized, and within divisions, departments were initiated with chairmen administratively responsible for each. Along with this reorganization, new objectives were established for the college by the president's planning group, composed of his top administrators. They were submitted to a special committee of faculty and administration, and finally adopted by the trustees as the strategy of the institution. They were adopted after appraising the resources available from the Wake administration, the changing environment of private higher education, the increasing involvement of the federal government, the risk confronting private schools in competition with state-supported community colleges and four-year institutions, and the values upon which the College was founded and upon which it had operated for sixty years.

The College had reached a strategic position in 1964-65 in the sense that for the first time it had the resources, in addition to the leadership, to assume a greater voice in its own destiny. No longer was every decision a reaction to some crisis or expediency; instead there was time to take a longer-range view of the direction of the school and plan its future.

Lynchburg College was private since it was not directly controlled by either federal, state, or local governments. There was federal support which amounted to about 3 per cent of the total operating income during the year ended June 30, 1968. This type of support was expected to be an increasing source of income. The academic emphasis was and is expected to remain on undergraduate education. The graduate program was limited to programs aimed at meeting specific local demands and research was restricted to the interests of particular faculty members as opposed to major contracts by the institution. Public service projects were undertaken in a small way by the College and by members of the faculty and staff. These characteristics seem to classify Lynchburg College as a "miniversity" on college-multiversity spectrum described in Chapter I.

There were about 1500 undergraduate students in 1967-68 with approximately 250 part-time graduate students and 100 faculty members. As of June 30, 1967, Total Assets were recorded at $8.9 million, Endowment at $2.3 million, and annual Revenue for the previous school year was $2.3 million. More detailed financial data is presented in Exhibit IV-4.

The College's church relationship can best be described using the six elements set forth by Pattillo and MacKensie.[4]

1. Board Composition - As of October, 1967, the College's charter was amended to remove the requirement that a majority of trustees be Disciples. Only the By-Laws continued to have this requirement.
2. Ownership - Lynchburg College had recently been incorporated in the state of Virginia as a private non-profit educational institution and now holds title to its assets, enters into contracts, and conducts its affairs in its own name with the Trustees acting as the official agents. The Disciples denomination has no official voice in the governance of the College.
3. Financial Support - About 2 - 3% of current funds at the College are received from the denomination and individual churches. In addition, church members have made significant donations and special campaigns have provided capital funds. About 200 students from Disciple families are enrolled each year.

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[4] Chapter I, Parameters of the Study, p. 10.

4. Acceptance of the denominational standards - Traditionally the leadership of the College has been drawn from the Disciples. This has tended to make the moral, social, and ethical standards of the College approach those of the denomination. However, specific Disciple doctrine is neither taught nor required.
5. Connection with the denomination through a statement of purpose in the Charter, By-Laws, or other published documents - There is no stated purpose of educating only young people from the Disciples denomination nor is there a special effort to train young people for the Disciple ministry. The ministerial training program is closer to the Disciples in practice than in purpose. The relationship is primarily for the purposes of financial support and the church-related image.
6. Selection of administrators and faculty from the denomination - There is no statutory requirement that faculty or staff be selected from the denomination, however, all past presidents have been Disciple members as have been all of the academic deans, a significant number of the present faculty, and a substantial number of staff members.

THE STRATEGIES OF LYNCHBURG COLLEGE (Stage #1 of the Model):

The major purpose of this research was to offer a methodology in the form of a three-step model for financial planning in private colleges and universities. Thirteen strategies identified and approved by the president of Lynchburg College were listed in Chapter II, and again in Exhibit IV-5 for formal reference purposes. The analysis of the Lynchburg College strategies in this section is intended to illustrate the application of the framework for strategy formulation. It is not the purpose here to criticize the administration at the College or the objectives pursued by the College. Five of the strategies will be discussed in detail to show how the analytical framework can be used. In a later section of this chapter, all thirteen will be incorporated in the financial analysis.

STRATEGY #1:

To become a regional school, as contrasted with its more local constituency of past years, attracting students from different social, economic, racial, ethnic, and religious environments.

It could be argued that this was a strategy of every school but at Lynchburg College it did represent a conscious switch in emphasis. A number of reasons for this strategy were revealed in the conversations with President Brewer and Dean Turner.[5] It was stimulated by competition from the state-supported, two-year community college that had recently been established in the City of Lynchburg.

In becoming a regional school, Lynchburg College would draw students from a wider area which meant that a larger proportion of the student body would live in on-campus facilities which had to be built. The College had never been totally a local institution since, as Dean Turner pointed out, the college had always been somewhat regional in its church constituency. The new strategy meant a change in the generally prevailing image of a local college (Table IV-1).

It was also felt by the administration that a more regional image would have a greater appeal to the faculty. The opinion was that prospective faculty members were attracted by the opportunity to teach a diverse student body.

Closely related to this strategy is the one stated in strategy #10.

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[5] Appendix A-1, pp. 1-3, and Appendix A-2, pp. 32-33.

Table IV - 1
Lynchburg College
Enrollment by States[a]
For the Years 1958-59 and 1968-69

	1958-59		1968-69	
	Number[b]	%	Number[b]	%
Virginia	624	83.5	1220	65.9
Maryland	11	1.4	107	5.8
North Carolina	8	1.1	18	1.0
West Virginia	5	.7	5	.2
Florida	39	5.2	27	1.5
New Jersey	7	1.0	232	12.5
New York	5	.7	82	4.5
Pennsylvania	6	.8	49	2.6
Indiana	6	.8	1	---
Washington, D. C.	5	.7	7	.3
All other states and Foreign Countries	31	4.1	106	5.7
TOTAL	747	100.0%	1854	100.0%

(a) Source: Records from the Registrar's Office, Lynchburg College.

(b) Includes evening and special students.

STRATEGY #10:

To maintain the size of the undergraduate program between 1500 and 2000 students and to allow the graduate division to achieve its greatest foreseeable size.

This strategy concerning the eventual size of the College was based upon a belief that there was an optimum size which would allow it to afford the facilities, faculty, and funds to become a top-rate institution. The size of the student body could be doubled, for instance, without doubling the requirement for library resources, the gymnasium size, the student activities building, and other services necessary at a residential school. Since it was necessary to provide these resources, the feeling was that they should provide for an increased student body that would allow the College to operate at an optimum level. President Brewer commented on his thinking at the time the strategy was adopted.

> ...with the basic enrollment of 800 students, we were locked in financially. We could have doubled the tuition and still not have achieved the financial base we needed. It just was not within the realm of possibility. And also in view of the fact that we needed a significant expansion of course offerings. We then decided we had to build, not only new buildings to replace some of the older ones, but larger buildings. We had no way of raising the money required to build a major gymnasium with the kind of financial base we had. So if we built, it meant we would have to take on the larger program to get the challenge before the Board to develop the whole base of operation. So when we built that gymnasium instead of building it just to replace the old one, we would build it to accommodate a range from 1500 to 2000 students. The cost of doing the job on that basis probably would be no greater than 20% of the cost of just replacing the facility. We

> also needed a student center which would house the post office, bookstore, student snack bar, kitchen, dining room whether or not we did anything to the size of our student body. But the expansion of the student body made it possible to build more adequate buildings that will serve between 1500 to 2000.[6]

When these two strategies are tested against other elements in the framework, the difficulties of implementing them can be observed. If the College's resources had been realistically appraised, the question could have been raised as to whether 1500-2000 students could support the addition to the physical plant required to become a regional institution. The potential conflict between objectives and resources will become more apparent as the quantitative stages of the model, the second and third steps, are developed later in this chapter.

Both strategies #1 and #10 indicate a need for dormitories. In light of this, several administrators at the College raised the question of what type of housing the College should offer. The environment from which the increased student body would be selected was undergoing changing values. In addition, the efforts to attract a more diverse student body had to be evaluated in relation to their different environmental backgrounds. Could the College offer programs and living conditions that would be equally attractive to students from New Jersey and from Southside Virginia?

Comparison of strategy #10 with #4 raises another question of potential conflict.

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[6] Appendix A-1, pp. 11-14.

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STRATEGY #4:

To maintain the moral, ethical, and social standards of a church-related institution.

Given a historic desire to be a church-related school, there can be little doubt that this policy is a long-standing strategy but there are different emphases among the many church-related institutions and among faculty members at Lynchburg College. This strategy does not attempt to impose specific attitudes, denominational beliefs and doctrine, or religious obligations. It does indicate the College's desire to enrich the religious life of the students as part of its obligation as a liberal arts school. A recently constructed Chapel and the newly-hired Chaplain were manifestations of this strategy.

Within the constituency from which the College had previously attracted students, strategy #4 was accepted without question. But to students and faculty attracted from more diverse backgrounds, conformity in the future could be expected to be more difficult. In fact, there was some question as to whether conformity should be required or even desired. Were the values of the founders and present leadership in conflict with those brought to the campus by students and faculty under strategy #1? Was the faculty sufficiently adaptable to cope with the more diverse student body? It is important that the mission of a private institution be considered when offering employment to faculty members or admission to students.

Another potential inconsistency between objectives and resources can be observed by the comparison of strategy #8 and #10.

STRATEGY #8:

To offer graduate work at the master's level in the fields where the College has competence and resources.

There was no disagreement on this strategy and, in fact, it had been initiated prior to this study. The graduate programs were almost entirely evening or part-time offerings and were restricted to the fields of Education, Physics, and Business Administration. All three were direct responses to community needs. It was expected that any expansion of the graduate programs would also have to be in answer to specific and identifiable needs and would have to come in a manner that would not detract from the undergraduate program.[7]

Since many of the graduate courses were to be taught by members of the undergraduate faculty, they would either be required to teach overloads or to reduce their teaching load at the undergraduate level. There was a strong effort to keep teaching loads at a normal level (four courses per semester) consequently strategy #8 meant that the professors in graduate courses were not available for undergraduate work or at least were only available part time. There are financial implications of this situation but, perhaps more important, the graduate program tended to take the most qualified teachers out of the undergraduate program. If undergraduate education was to be the major emphasis, there was a potential conflict for the services of the terminal degree holders on the faculty between the undergraduate program and the graduate courses.

One additional strategy can be used to illustrate the application of the framework.

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[7] Appendix A-1, pp. 5-6.

STRATEGY #11:

To actively seek endowments and federal funds to provide the facilities and other resources required by 1500-2000 students.

There can be little argument with the College's need for such funds as this strategy calls for and, in fact, a number of federal grants and loans had been obtained as will be seen in the computation of the quantitative measure later in this chapter. The value in analysing this strategy in terms of the elements in the framework, however, comes from considerations of the environment in which it will be implemented. Wealthy alumni and friends of an institution are generally viewed as the source of endowment funds. At Lynchburg College the alumni and friends are largely ministers, teachers, government employees, and "middle" managers in business. In addition, it has only been in recent years that the College has had large numbers of graduates. These facts about the constituency environment of the College tend to make campaigns for financial support difficult.

In addition to the alumni limitations, support for endowment is seldom available from foundations or from the government. Capital from these two sources is generally limited to specific building projects or special educational, research and public service programs. Government funds had been obtained by the College for these purposes and were expected to continue.

Two characteristics are generally applicable to government grants. They frequently do not provide all of the capital required and they seldom provide funds for the continued operation of buildings or programs after the initial grant. This means, for a private college such as

Lynchburg, that additional funds must be procured from private donors, from operating income, or from debt which has to be repaid from operating income. The question posed by the application of the framework is, should other strategies, such as #1 and #10, be implemented before funds expected from sources referred to in strategy #11 are at least reasonably expected. Normally it would seem more realistic to adopt strategies for sources of income simultaneously with strategies for the allocation of resources. The risk in the Lynchburg College approach was not ignored by administrators but, in order to take advantage of the timely opportunities for federal funds, the high risk was accepted.

The inconsistencies pointed out in this analysis merely illustrate the use of the framework. In reality, many of the questions raised were considered by the administration, the risks inherent in the strategies were carefully appraised, and based upon the best information at hand, the decisions were made to adopt the bold, dynamic plans.

The evaluation of the risks apparent in the dynamic long-range plans was based on traditional concepts of financing and budgeting in higher education. The long-range effects on the College's financial structure could only be evaluated subjectively. The model proposed in this study was not available. Had it been used, the ultimate effect of the rising pressure on revenue derived from current sources, particularly student tuition, could have been determined from the quantitative measure presented in the following section.

CLASSIFICATION OF STRATEGIC EXPENDITURES (Stage #2):

The proposed three-stage model is intended to be used in the long-range planning of strategic expenditures and in the determination of the ability to finance them out of current cash revenue and/or debt. The first stage, the identification of strategies, was discussed in the previous section of this Chapter. The two quantitative stages of the model consist of classifying all expenditures for programs and capital projects according to strategies (in other words, determining strategic expenditures) and computing the ultimate measure--to be called the Utilization Ratio (UR).

In classifying strategic expenditures at Lynchburg College, the reason for each expenditure was determined from accounting records, from capital expenditure proposals, from other source documents, and from conversations with officials at the College. With this information, expenditures were assigned to strategies as shown in Exhibit IV-6a. The columns represent the thirteen strategies identified at the College and the rows represent summary figures for on-going and incremental programs and projects. In this manner, all expected expenditures were assigned to a strategic expenditure and to a program or project.

In some cases it was necessary to allocate expenditures among several (or to more than one) strategies. For instance, the cost of additional recruiters in the Admissions Office was assigned to strategy #10, expanding the size to 1500-2000 students, and the remainder of the Admissions Office expense was assigned to strategy #13, maintaining existing programs. All costs that could not be incrementally identified with a specific strategy were assigned to #13 under the assumption that these costs were the result of the existing program.

The total of columns 1 through 12 represents the strategic expenditures applicable to the College's incremental strategies. The on-going strategy, #13, was also clearly part of the long-range plans since there was no intention of dropping programs that were in demand.

The expenditures assigned to strategies #1 through #12 are incremental in the sense that a decision to drop one of them, prior to commitment, would make it possible to reduce costs by the amount of that column. Once a strategy has been implemented and its success is reasonably assured, its incremental nature may cease. For instance, the initiation of an MBA program at Lynchburg was incremental at the time of the study. But, as the program continues and new faculty members get tenure, the incremental nature will be lost. Therefore, in future years when the Schedule of Strategic Expenditures is prepared, it would be advisable to transfer the new MBA program to the on-going strategic expenditure column. This process emphasizes the importance of deciding, in advance of commitment, which strategies are incremental and financially feasible and which should be eliminated from the plan.[8]

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[8] It was stated previously that administrators are not entirely without options to eliminate academic programs. If, for example, the MBA program proved undesirable in some future year, the Business Administration Department would probably have too many teachers. Although these teachers may not be terminated immediately, it would be possible through long-range planning to reduce the size of the department faculty by not replacing teachers who leave, by not hiring new men, by retirement, or by other gradual means. This type of planning should be a part of the model as well as planning for constantly growing programs.

In the lower part of Exhibit IV-6a revenue was also identified with strategies when the income was reasonably anticipated. The need for developing strategies concerning the source of income is already apparent. Some strategies created strategic income, e.g. strategy #8, to offer graduate work. In addition, strategies which included building projects frequently were expected to be partially financed by federal and private grants. When funds were to be borrowed, the amount was also shown as part of the strategy--a form of strategic receipts.[9] The undesignated non-tuition revenue from all other sources was assigned to strategy #13 for much the same reason as was the expenditures for on-going programs.[10]

The net result of subtracting all non-tuition income and borrowed funds from the total strategic expenditures gives the "Net Difference to be Paid by Student Tuition." Strategic expenditures that do not have identifiable sources of financing result in an increase in the required tuition revenue. For private colleges, such as Lynchburg College, which have limited non-tuition sources of income and are in competition with state-supported institutions for students, the change in the amount needed from student tuition is critical.

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[9] Since borrowed funds were shown as receipts in the year received, it was necessary to show repayment of principal and interest in future years as part of the strategic expenditures. Consequently, a decision to exclude a strategy (in the planning stage) may have an effect over several years.

[10] The number of students planned for the dormitories and dining hall was a per cent of capacity ranging from 97% at the beginning of each year to 90% at the end of the year.

The time element was brought into the model by the number of years in the long-range planning period. In Exhibit IV-6a, this is a five-year period with the amounts representing the total strategic expenditures or revenue for the five-year period. These total figures become the control to which the annual figures in Exhibit IV-6b must reconcile. The annual data is necessary to show the trend in the ultimate UR and to account for changes in either the cash balance or the amount borrowed or repaid.

The time period selected could be any number of years without changing the methodology of the computation. A study sponsored by the Ford Foundation, through the Fund for the Advancement of Education, recommended a ten-year budget for higher education.[11] Some of the administrators interviewed felt that it became guesswork beyond five years. In deference to this opinion, five years was used at Lynchburg, although it is not intended to indicate a best possible planning period. Five years was also used at two of the test schools--Hiram College and Washington & Lee University. At Stetson University, however, five years was not long enough for the full effect of their strategies to be ascertained. Consequently, at that institution, eight years was used for the planning period. More will be said about the work at these schools in Chapter VI.

Perhaps the most significant point concerning the time period selected is that made in Chapter II. It is unlikely that effective control over long-range expenditures can be exercised in one-year operating budgets. A period longer must be selected to provide perspective concerning the effect of long-range commitments on the financial strength of the institution. The period selected should be controlled by the purpose for long-range planning. It should be long enough to allow the full effect on future solvency of strategic planning to be seen. For instance, the time period should not be cut off in five years if a new program is expected to reach maturity in seven years. Under this condition, the full effect on long-range financing may not be apparent unless at least seven years are included in the planning period.

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[11] Sidney G. Tickton, Needed: A Ten-Year College Budget, (New York, The Fund for the Advancement of Education, 1961).

COMPUTATION OF THE UTILIZATION RATIO (Stage #3):

The third, and final, step in the financial planning model is the computation of the Utilization Ratio (UR). In this step (Table IV-2) the "Net Difference to be Paid by Students" is divided by the average tuition rate to determine the number of students required by the College to accomplish the plans called for in their list of strategies. The number of students required was then divided by the planned student capacity to determine the rate at which the College was utilizing its facilities--the Utilization Ratio.

Table IV - 2
Lynchburg College
Computation of Utilization Ratio
Proposed for the Years 1968-1973

	"Net Diff." (from Exhibit IV-6b) (000 omitted)	Average Tuition Rate	Students Required	Student Capacity	Utilization Ratio
1968 - 69	$ 2057	$ 1340	1535	2025	.758
1969 - 70	2380	1370	1737	2025	.857
1970 - 71	2514	1390	1809	2025	.893
1971 - 72	2803	1400	2002	2025	.988
1972 - 73	3084	1400	2203	2025	1.087

Estimates of each year's tuition rate was the average expected to be paid by students enrolled in those years. At Lynchburg College (and at other institutions), the students were offered a four-year proposed tuition rate that the college tried to maintain. While it was not a guaranteed rate, it was the plan to continue this inducement. Such a rate structure meant that if tuition rates were changed annually, there might be four different rates paid by the student body. This arrangement also applied to the rates for room and board, but there was a tendency to hold these relatively constant.

The calculation of student capacity used in the "Utilization Ratio" is subject to different interpretations. In reality there is no fixed capacity in a college or university. Even in dormitories, the number of students housed in each room can be varied and off-campus housing can be secured causing this relatively clear-cut facility to have a flexible capacity. Beyond the residence capacity, the computation of institutional capacity is even more nebulus. Factors that enter into the computation of this latter capacity might include class hours scheduled for the classroom facilities, evening school courses, number of days a week of instruction, summer programs, size of classrooms, faculty attitude toward class size, number of classrooms available, and many other less significant factors.[12] For a given school, the only reasonable approach seemed to be to develop capacity under the conditions planned for the foreseeable future. In this manner it was by no means a true capacity, but a planned capacity that might be varied by the institution if the expected conditions changed.

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[12] At each participating college, it was found that usually one constraint determined capacity. At Hiram, dormitory space was the limitation but, at Washington & Lee, the constraint was the size of the faculty and their philosophy of small classes.

No previous attempt had been made to define planned capacity at Lynchburg College but there were reasonably clear estimates of the capacity in the dormitories and dining hall (about 934 as of 9/15/67). An analysis was made of classroom capacity in conjunction with the Registrar's Office. For the purpose of this study, the smaller of classroom size or professors attitude concerning class size was used as the capacity for each course offered at Lynchburg College during three semesters, Fall and Spring, 1967-68, and Fall, 1968-69. The average of these three semesters produced a planned capacity of 2025 (See Exhibit IV-7). It should be noted that the average of 2025 students assumes the exact distribution of students between courses required to achieve 100% capacity as was determined in this initial estimate of capacity. The 2025 average is only valid as a planning device and in fact a UR goal of something less than 100%, say 90%, may be more realistic.

The most recent three semesters was used at Lynchburg College because the current level of enrollment and classroom space had been reached during that period. The use of semesters prior to this would lower the capacity figure unrealistically.

A school's philosophy concerning class size will affect the computation of capacity. At Lynchburg College there is great emphasis on small classes with a close relationship between faculty and students. Consequently, the faculty attitude concerning their class size was the constraining influence in determining planning capacity. For schools located away from urban areas from which off campus students can commute, the planned capacity may be constrained by the dormitory and dining hall capacity.

Ir is perhaps obvious to say that classroom seats are not likely to be a constraint. At Lynchburg College there were approximately 1300 classroom seats. If the evening hours are excluded (which is not totally realistic), there are eight class periods per day and five days of classes per week. The average course load for a student is about five per semester in which he attends class 2-1/2 hours per week in each course.[12(a)] This calculates to a capacity of 4176 students.

$$\frac{1300 \text{ X } 8 \text{ X } 5 \text{ da.}}{5 \text{ courses X } 2\text{-}1/2 \text{ hr.}} = 4176 \text{ student capacity}$$

The obvious difficulty with this estimate of planned capacity is that the College does not have the faculty to support that number of students. In addition, many faculty members would not agree to teaching classes as large as was allowed by the size of the classroom. This led to the conclusion that faculty size and attitude concerning class size was the major determining constraint at Lynchburg College.

At other colleges different criteria will have to be used to determine planned capacity. The study leading to the determination of planned capacity can be beneficial in that an imbalance may be detected in dormitory and dining hall capacity, classroom seating capacity, and faculty size; all of which should be consistent with the institutional philosophy concerning class size and student/faculty ratios.

The difference in interpretation of planned capacity is one of the major reasons why the UR cannot be used to compare institutions. A UR of .90 at Lynchburg College is not necessarily worse than a UR of .80 at some other school.

[12(a)] The class schedule at Lynchburg College requires a full hour of class attendance in each course which meets 3 days one week and 2 days the next and alternates in this manner throughout the semester.

The important point in establishing the planned capacity is that it should be a realistic figure based upon the strategies adopted and that it is viewed as an internal planning device only. If this is done, then a desired UR can be established based on this sound estimate of capacity and the actual UR can be said to be too high or too low in relation to the desired figure. The numerical value for the UR is less important than the relationship to a desired range and the trend in UR values.

It was stated earlier that the concept of capacity must be viewed as a planned capacity and it is in no sense a fixed number. Strategies can be adopted that change capacity. At Hiram, for example, it would be possible to build new dormitories and increase planned capacity, assuming they had classroom space and faculty. At Lynchburg, an addition to the faculty would increase the capacity. Under these types of strategies, the expenditure would increase the UR but this may be offset by additional capacity.

Assume, for instance, that Lynchburg College hired five new faculty members which increased expenditures by $100,000 and result in an increase in the "Net Difference" (Exhibit IV-6a). If each of these faculty members taught four classes in which maximum enrollment was set at 25, the capacity of the College would increase by:

$$\frac{25 \text{ x } 4 \text{ x } 5 \text{ teachers}}{5 \text{ (average student course load)}} = 100 \text{ students}$$

Assuming the increase in faculty occurred in 1969-70, the UR for that year would be as follows (Table IV - 2 plus above changes):

$$\frac{\$2,480,000 \text{ (Net Diff.)}}{\$1,370 \text{ (aver. tuition)}} = 1810 \text{ students required}$$

and

$$\frac{1810 \text{ students required}}{2125 \text{ new capacity}} = .853 \text{ UR}$$

The new UR for 1969-70 would be very little different from the previous calculation of .857. The question to be faced by the administrators at this point is whether the number of students required can actually be obtained to compensate for the expenditure.

In this study, the capacity of the various schools was held constant since none of the schools offered strategies to increase the number. This philosophy probably resulted from the uncertainties concerning enrollment in private institutions in the future. Nevertheless, the constant capacity used in this study should not be interpreted as the only approach. It is entirely possible to plan an increase in capacity which can be built into the UR each year of the planning period.

ANALYSIS OF THE UTILIZATION RATIO

It should be evident at this point that the Utilization Ratio is not a measure of a school's financial position. It does not determine the level of either capital or current assets, and it does not determine the amount of the current surplus or deficit. The UR is only a measure of the ability of an institution to accomplish its mission and it is expressed in terms of the degree to which the planned capacity would be utilized at a "break-even" number of students. I should add that the UR, used in conjunction with a breakdown of strategies to help evaluate trade-offs, enhances its value.

The UR will be most effective if a target UR is established as a planning objective. Establishing a target UR range provides an effective means for trustees to give general guidance to the president as he attempts to develop the long-range plan for the institution. In making this judgment, trustees must consider the institution's resources, the environment, and the other factors of the framework for strategy formulation. In addition, they would need an understanding of the concept of the UR which is not likely to be obtained at a first encounter. In time, however, it seems possible that trustees could gain sufficient grasp for the model to establish a range for the UR. Assuming this understanding is possible, the model can provide a device to assist trustees in communicating their desires to the administration. The administrators would also have a means of relating academic programs to the trustees in terms of the financial effect.

To illustrate this process, assume that Lynchburg College trustees were to decide that a UR range of 80-85% represented the most effective use of facilities. Under this assumption, the total effect of all strategies would be expected to produce a UR within the desired range. Programs whose academic value had been previously evaluated by the faculty could be submitted to the trustees for the financial decision. The trustees could be reasonably assured that the long-range plan was within the resource limitations of the institution.

The lower limit of the UR range (assume 80%) might be the level of excess capacity deemed acceptable, it might be the level at which the highest expectation for the tuition rate is reached, or it might represent the trustees reasonable expectation for maximum non-tuition income. A UR above the desired upper limit (assume 85%) might indicate too dynamic a program for the capacity of the institution, the tuition rate is too low, or too many strategic expenditures are requiring operating income when non-tuition income is not available.

Certainly not all schools would establish the same UR target. Institutions with substantial non-tuition income may set the target UR at a lower figure. It is possible for the UR to be zero or even negative. Mathematically, this would happen when the "Net Difference to be Paid by Tuition" is zero or negative. Practically, it can happen when the institution has more non-tuition income than its operating and capital expenditures. It would be a very rare school that was in this enviable position. This situation would be interpreted to mean that the institution could survive without student tuition. It also means that the school has the option of greater selectivity in accepting students. It does not necessarily mean that such a school would not charge tuition.

As a planning technique, a UR that is below the target range may be considered undesirable, but not necessarily. A low UR could mean that the administrators are not planning to do all that the institution's resources will allow them to do. It can imply a scaling down of the operation in anticipation of a drop in enrollment. On the other hand, a low UR can also provide the opportunity to lower tuition or to enrich the program through additional strategic expenditures. The UR measures what is financially feasible, it does not measure directly what actually happens. The actual results in comparison with the planned UR may provide a control over expenditures, but at the planning stage, the UR only measures what is required to accomplish the long-range plans.

At Lynchburg College, as well as at several other colleges participating in this study, the idea was expressed that, in order to upgrade or maintain the quality of the student body, they must be in a position to be selective in their admission policy. They felt that financial pressures in the future would make this increasingly difficult. In terms of the UR, these administrators might say they must reduce the UR to a level that required fewer students thus allowing them to turn away unqualified applicants without jeopardizing their financial operations.[13]

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[13] Appendix B-1, pp. 94-95.

The concept of debt capacity was found to be quite uncertain among the administrators. Some of them acknowledged that they had never considered debt capacity, they simply avoided long-term debt almost completely.[14] Others expressed the debt limit in terms of the liquidation value of assets[15] and others felt that the ability to repay from current income determined the limit on debt.[16] A definitive answer to this question is much needed in private colleges and universities.[17] The UR can be used to determine the ability to repay debt but only in conjunction with all other programs and projects planned. If a planned repayment schedule pushes the UR beyond the target range, it is an immediate signal that other means of financing should be considered or some strategy should be dropped from the plan. In establishing the desired level of the UR, administrators must concern themselves with the question of whether the debt level can be maintained with the number of students available.

The question was raised in connection with the analysis of the strategy framework earlier in this chapter as to whether certain strategies for expansion should have been attempted at Lynchburg College before more definite sources of funds were known. Perhaps a more pertinent question to the use of the UR is when does an idea become a strategy and a part of the long-range financial plan. The most conservative answer for private colleges today is to include only the programs or projects in in the long-range plan that can be accomplished within the limits of the target UR. Other projects then would be kept out of the planning process until the source of funds was reasonably assured. This implies a possible strategy of postponing or terminating a program, which is quite logical. In the iterative process of analyzing various sets of proposals, the administrators would determine those which will be recommended to the trustees. If the combined plan is approved, the strategies then have been adopted, and the administrators are free to begin implementation.

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[14] Appendix D-2, p. 172.

[15] Appendix B-1, pp. 90-91.

[16] Appendix A-3, pp. 66-67.

[17] The limitations of this research did not allow a thorough analysis of the debt limit for the schools used in this study. The ultimate answer to the question of debt capacity should be the subject of further research.

It will be seen in Chapter VI that both Hiram and Stetson had strategies of limiting new programs of an academic nature to those that were either a replacement for existing programs or could be financed from identified sources other than current operating funds. All programs, in other words, were to be self-supporting.[18] By self-supporting, these institutions meant that no programs were to be undertaken if the original cost or the continuing operating costs would require allocations of resources from operating funds currently or in the foreseeable future. As will be seen from their "Computation of the Utilization Ratio" in Chapter VI, this policy did not apply to certain projects for buildings that were felt essential to the continuation of the existing programs.

The difficulty of terminating academic programs has already been discussed but this should not be interpreted to mean that they are never ended. An academic "major" or department, for instance, can be closed through attrition of the faculty members within the department. Under these conditions it would be desirable to separate the costs that will be terminated with the program and show these as a separate strategic expenditure from the on-going strategy of continuing existing programs. As these costs decline or stop altogether, these can be shown in the Schedule of Strategic Expenditures in the years in which it takes place and the effect on the UR can be demonstrated. It would be advisable for administrators to be certain that the faculty is in agreement with the option being exercised in planning the termination of the program.

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[18] Appendix B-1, p. 106, Appendix C-3, p. 153.

Most private institutions find themselves in the position of having more programs and projects to finance than they can afford. They must allocate capital to the most appropriate ones. Businesses also face this problem and generally use some measure of ROI as the vehicle for capital allocation. Since profitability is not the objective in private colleges, other means of allocating funds must be determined. Generally, the allocation process in higher education is made initially on academic criteria. The programs with the greatest academic value to the institution presumably are given the highest priority for funds.[19]

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[19] Even though the UR is intended to measure the financial feasibility of a total package of strategies, it can be helpful in the process of allocating funds. A list of programs could be developed, by a faculty group, on a subjective basis, ranking them from those with the greatest academic value to those with the least value. These programs could then be ranked from those requiring the greatest increase in the UR to those with the least increase in the UR. As the administrators went through the iterative process of trade-offs, they would constantly be asking the question of whether a particular program's academic value justified the increase in the UR. In this manner faculty members would be involved in the process of allocating funds in that they have made the determination of the rank of projects for which limited funds are available. The target UR established by the trustees would then become the"cut-off" point in the allocation of funds.

One final point must be made concerning the use of the model. It is not intended to replace the customary operating, capital and cash budgeting systems. Rather, the model is an instrument designed for use by top administrators who must provide guidance to the lower-level department chairmen and other staff members as they develop the budgets for their responsibility centers. Even though the model may be prepared concurrently with the budgets, the intention is that operating and capital budgets reconcile to the UR in the planning period under consideration. In this way the UR serves as a control over the budgets submitted by the entire organization. The UR will provide a means for the top administrators and the trustees to evaluate the annual budgets in relation to the total plan of the institution. They will be able to see that the organization is moving in the direction agreed upon when the long-range plan and the UR was set.

EXHIBIT IV - 1
Selected Financial & Enrollment Data
Lynchburg College 1937 - 1967
(all dollars in thousands)

	Regular Enroll.(a)	Current Surplus (Deficit)	Income				Endow. Assets		Plant Assets	Total Assets	Total Debt
			Tuition	Other	Endow.	Total (b)	Cost	Mkt.			
1966 - 67	1389	$ 332	$ 1710	$490	$ 84	$2284	$1579	$2305	$5775	$8963	$1397
65 - 66	1219	300	1357	343	79	1779	1659	2445	4992	8402	1336
64 - 65	1053	197	971	234	74	1279	1295	2200	3930	6941	1269
63 - 64	766	81	746	184	68	998	1165	2076	3595	5920	407
62 - 63	789	103	717	168	69	954	1030	1804	3387	5465	280
61 - 62	815	101	655	173	64	892	1015	1580	2596	4822	388
60 - 61	747	34	566	125	59	749	992	1760	2485	4260	205
59 - 60	813	(9)	538	140	59	737	957	1530	2416	3752	16
58 - 59	782	48	496	114	55	665	936		2323	3607	43
57 - 58	742	54	431	190	55	676	914		1905	3283	12
56 - 57	705	30	366	147	52	565	838		1653	3111	5
55 - 56	692	16	346	64	52	462	740		1625	2902	38
54 - 55	620	29	324	50	52	426	872		1613	2872	153
53 - 54	536	4	275	54	45	374	855		1323	2410	59
52 - 53	498	17	208	51	53	312	482		804	1743	31
51 - 52	490	19	196	48	40	284	382		750	1339	34
50 - 51	594	(9)	228	37	20	285	346		728	1263EST	43
49 - 50	685	10	267	44	12	323	362		704	1227	34
48 - 49	749	26	278	33	14	325	346		679	1133	40
47 - 48	696	37	241	30	13	283	346		605	1062	24
46 - 47	548	47	167	48	13	229	322		578	983	18
45 - 46	342	56	94	59	14	167	322		569	953	32
44 - 45	164	63	43	104	12	158	302		566	917	68
43 - 44	142	70	32	89	10	132	303		563	906	135
42 - 43	205	70	47	69	11	127	297		561	931	233
41 - 42	231	(13)	48	19	10	76	294		555	887	264
40 - 41	256	(6)	57	10	10	76	289		552	884	251
39 - 40	261	(15)	55	13	12	80	291		552	876EST	247
38 - 39	277	(25)	59	13	10	82	295		550	930	242
37 - 38	250	(2)	54	25	11	90	295		548	921	208
36 - 37	218	(16)	46	19	10	74	292		546	930	210

Source: Enrollment Data came from Catalogues, records of the Registrar, and Minutes of the Meetings of the Board of Trustees. Financial data was taken from: Report on Examination, Audit Reports on Lynchburg College from 1937-1967, on file in the Business Office at Lynchburg College.

(a) Does not include summer, part-time, or graduate students.
(b) Includes "Net Income or Loss" from Aux. Enterprises

Exhibit IV - 2

LYNCHBURG COLLEGE

Summary of Significant Characteristics

A private, non-profit college tending toward a "miniversity"

Affiliation: Related to the Disciples of Christ Church
Self-perpetuating Board of Trustees
Assets owned in the name of the Trustees
No required number of Trustees specified from the denomination
No required number of faculty specified from the denomination
By custom the president and other administrators have always been from the denomination
Minimal financial support from the denomination

Age: 65 years (founded in 1903)

Location: In mid-Atlantic, industrial city with metropolitan area of approximately 130,000

Closest College: Community College and two women's colleges in the city

Objectives: Progressive, reflecting optimistic view of the future and maximum use of resources

Size: (as of 6/30/67)

Students (undergraduate)	1450-1500
Faculty	100
Revenue (Aux. Enterprise, net)	$ 2.3 million
Assets	8.1 million
Endowment (market)	2.3 million
Plant assets (cost)	5.8 million

Organization: One school (With 22 academic departments, undergraduate)
One campus
Graduate studies, just beginning
See Organization Chart, Exhibit IV - 3

Growth Trends: Assets growing at rapid rate ($12.0 Mil. by 6/30/69)
Student enrollment increasing about 100 per year
Income exceeded $3.0 million for the year ended 6/30/68)
Extensive building program in progress (5 buildings under construction in 1968)

Decision-Making Environment: Administrative-oriented, faculty voice becoming stronger but still a responsive one as of 8/1/68

Per Cent Dormitory Students: 60% with 40% day students

Student Background: From middle 1/3 of high school classes with perhaps 25% from upper 1/3
From middle-income families
Composition of student body changed from primarily rural to primarily urban in last 3 years
75-80% from Virginia

EXHIBIT IV-3

Lynchburg College – Organization Chart

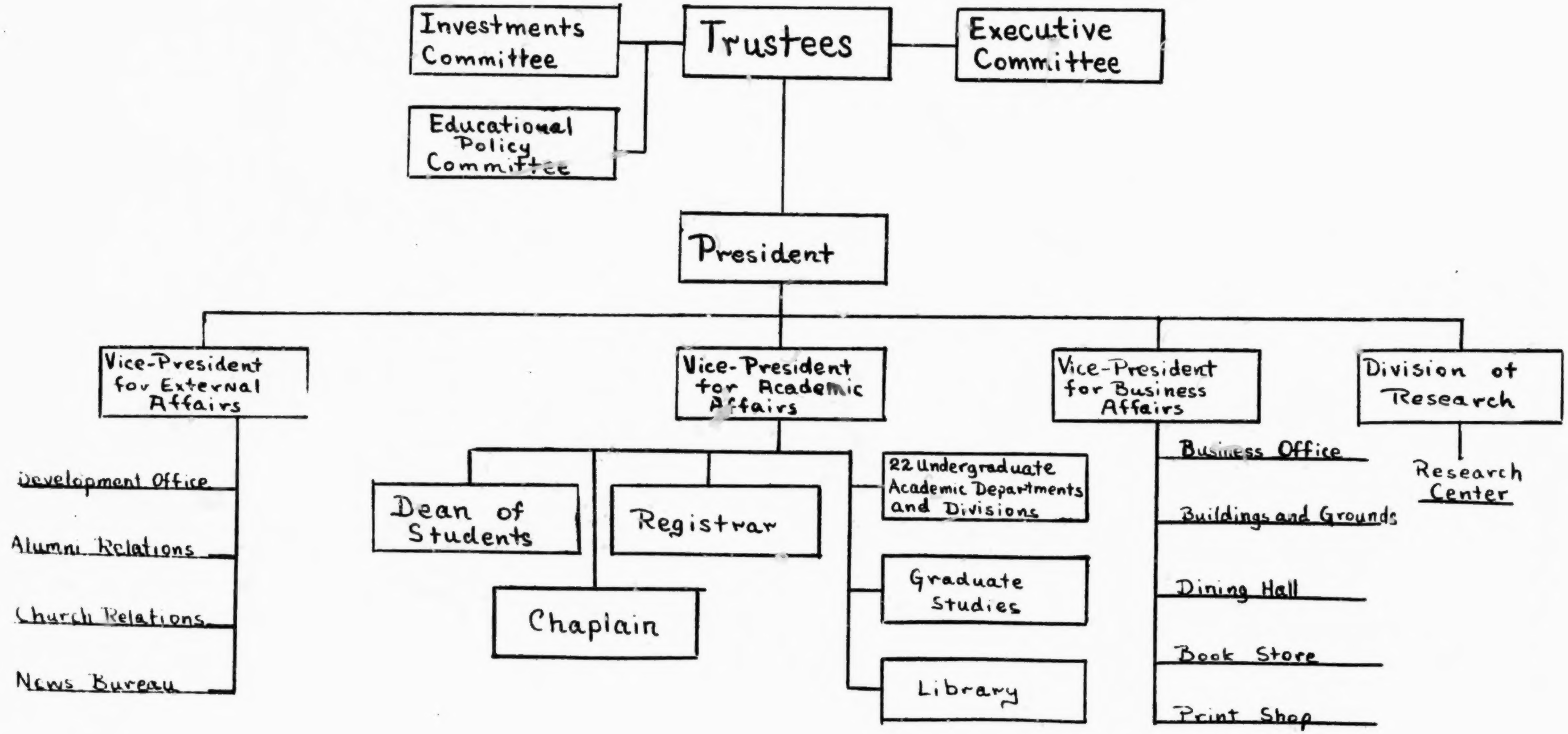
Investments Committee
Trustees
Executive Committee
Educational Policy Committee
President
Vice-President for External Affairs
Vice-President for Academic Affairs
Vice-President for Business Affairs
Division of Research
Development Office
Alumni Relations
Church Relations
News Bureau
Dean of Students
Registrar
Chaplain
22 Undergraduate Academic Departments and Divisions
Graduate Studies
Library
Business Office
Buildings and Grounds
Dining Hall
Book Store
Print Shop
Research Center

Exhibit IV - 4
Lynchburg College
Condensed Balance Sheet
As of June 30, 1967
(in thousands)

Assets	
Current Fund Assets	$ 986.5
Endowment & Funds ($2.3 mil.-market value)	1579.1
Plant Assets	5775.4
Unexpended Funds for Plant Addition	27.9
Agency Funds	595.9
Total Assets	$ 8964.8
Liabilities	
Current Liabilities	$ 403.3
Long-Term Debt	994.0
Total Liabilities	$ 1397.3
Net Book Value	7567.5
Total Liabilities & Book Value	$ 8964.8

Statement of Current Fund Operations
For the Year Ended June 30, 1967

Income:		
Student Tuition & Fees	$ 1710.1	
Endowment Income	84.9	
Gifts & Grants (to Current Fund only)	132.0	
Government Grants	60.1	
Other Income	59.7	
Auxiliary Enterprise (excess of income over expenses)	236.8	
Total Income:		$ 2283.6
Expenses:		
Instructional & Related Activities (Salaries & Expense)	$ 1121.0	
Other Administrative & Operating Expense	829.9	
Total Expense:		$ 1950.9
Net Excess of Income over Expenses		$ 332.6

Exhibit IV - 5

Summary of

THE STRATEGIES OF PRESIDENT M. CAREY BREWER'S ADMINISTRATION AT LYNCHBURG COLLEGE AS OF AUGUST 1, 1968

It is the purpose of Lynchburg College:

1) To become a regional and residential school, as contrasted with its more local constituency of past years, attracting students from different social, economic, racial, ethnic, and religious environments.
2) To accept undergraduate students whose high school performance ranks them in the middle third of their graduating class if they can demonstrate other qualities that indicate potential success in college. (This strategy does not diminish the efforts to attract top students as well.)
3) To require a well-rounded core of liberal arts courses of all students regardless of their major field emphases.
4) To maintain the moral, ethical, and social standards of a church-related institution.
5) To improve the weaker academic departments selectively through significant allocations of resources and to emphasize the academic strengths of the college.
6) To improve the general academic program through the addition of high caliber faculty and the establishment of funded faculty improvement programs.
7) To encourage research by members of the faculty and staff who have the interest but at the same time to maintain emphasis on the primary college function of good teaching.

8) To offer graduate work at the master's level in the fields where the college has competence and resources.
9) To meet the community need for continuing education programs in addition to graduate education when it is compatible with community growth and the college's resources.
10) To maintain the size of the undergraduate program between 1500 and 2000 students and to allow the graduate division to achieve its greatest foreseeable size.
11) To actively seek funds to provide the facilities and other resources required by 1500-2000 students. (This is manifest in the 10-Year Development Program.)
12) To reorganize the college into three functional areas and, within the Academic Affairs function, to constitute 22 departments. (See Organization Chart, Exhibit IV-3)
13) To maintain the existing academic areas of study where there is a demand by a significant number of students.

NOTE: This statement of strategy was approved and agreed to by President Brewer of Lynchburg College.

Exhibit IV - 6a

Lynchburg College

SCHEDULE OF STRATEGIC EXPENDITURES AND RESOURCES (CONTROL) (a

For the Five Year Period 7/1/68 - 6/30/73

(In Thousand $)

	Strategies[b]								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9
Expenditures									
Operating Expenses:									
Auxiliary Enterprises	$2,281								
All Other[c]	99	$384		$120	$ 65	$175	$211	$251	$1
Debt Service	1,130		$ 41						
New Programs & Projects:									
Original Cost	1,285		1,192						
Operating Cost	583		93	99	170			206	
Total Strategic Expenditures	$5,378	$384	$1,326	$219	$235	$175	$211	$457	$1
Receipts									
Change in Cash Balance[d]									
Non-Tuition Receipts:									
Auxiliary Enterprises	$3,020								
Endowment Income									
Gifts & Grants	80		$ 776				$247		
Other Income								$641	$1
Loans Received	1,205		415						
Total Non-Tuition Receipts	$4,305		$1,191				$247	$641	$1
Net Differences to be Paid by Student Tuition	$1,073	$384	$ 135	$219	$235	$175	($ 36)	($184)	$

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[a] The figures in this schedule are equal to the sum of the corresponding figu that follow.

[b] Strategy #12 concerning a new organization structure had been accomplished expenditure was no longer considered incremental. Consequently, it is omitted from t

[c] All other expenses represent the sum of the expenses for all responsibility institution.

[d] In this research, cash balances were held constant for convenience. This i in practice. An excessive cash balance can be a source of funds and a deficient bala If the UR is to measure debt requirements, it will be necessary to include "changes i

Source: compiled by researcher from college financial records, adding an 8% increase

) (a)

(9)	(10)	(11)	(13)	Total
			$ 2,579	$ 4,860
$185	$ 352	$75	13,745	15,662
	111			1,282
	4,729			7,206
	362			1,513
$185	$5,554	$75	$16,324	$30,523
				-0-
			$ 3,359	$ 6,379
			519	519
	$1,288		1,629	4,020
$113			950	1,704
	3,443			5,063
$113	$4,731		$ 6,457	$17,685
$ 72	$ 823	$75	$ 9,867	$12,838

figures in each of the annual schedules

hed to the point where the strategic
om this schedule.

lity centers identified for the

s is neither necessary nor realistic
alance can require debt financing.
s in cash balances."

ase to future expenses.

Exhibit IV - 6b

Lynchburg College

SCHEDULE OF STRATEGIC EXPENDITURES

Proposed for the Year 1968-1969

(In Thousand $)

	Strategies												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(13)	Total
Expenditures													
Operating Expenses:													
Auxiliary Enterprises	$391											$ 437	$ 828
All Other	17	$65		$20	$11	$30	$36	$43	$31	$ 60	$13	$2,344	$2,670
Debt Service	202												202
New Programs & Projects:													
Original Cost										3,777			3,777
Operating Cost	75			17	29			8		12			141
Total Strategic Expenditures	$685	$65	-0-	$37	$40	$30	$36	$51	$31	$3,849	$13	$2,781	$7,618
Receipts													
Change in Cash Balance													- 0 -
Non-Tuition Receipts													
Auxiliary Enterprises	$533											$ 571	$1,104
Endowment Income												88	88
Gifts & Grants							$41			$ 711		279	1,031
Other Income								$90	$19			162	271
Loans Received										3,067			3,067
Total Non-Tuition Receipts	$533		-0-				$41	$90	$19	$3,778		$1,100	$5,561
Net Difference to be Paid by Student Tuition	$152	$65	-0-	$37	$40	$30	($ 5)	($39)	$12	$ 71	$13	$1,681	$2,057

Exhibit IV - 6b (continued)

Proposed for the Year 1969-70
(In Thousand $)

Strategies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(13)	Total
Expenditures													
Operating Expenses:													
Auxiliary Enterprises	$420											$ 475	$ 895
All Other	$ 18	$71		$22	$12	$32	$39	$ 46	$34	$ 65	$14	2,533	2,886
Debt Service	202									27			229
New Programs & Projects													
Original Cost										952			952
Operating Cost	82			18	31			19		77			227
Total Strategic Expenditures	$722	$71	-0-	$40	$43	$32	$39	$ 65	$34	$1,121	$14	$3,008	$5,189
Receipts													
Change in Cash Balance													-0-
Non-Tuition Receipts:													
Auxiliary Enterprises	$506											$ 611	$1,117
Endowment Income												96	96
Gifts & Grants							$44			$ 577		301	922
Other Income								$102	$21			175	298
Loans Received										376			376
Total Non-Tuition Receipts	$506		-0-				$44	$102	$21	$ 953		$1,183	$2,809
Net Difference to be Paid by Student Tuition	$216	$71	-0-	$40	$43	$32	($ 5)	($ 37)	$13	$ 168	$14	1,825	$2,380

Exhibit IV - 6b (continued)
Proposed for the Year 1970-71
(In Thousand $)

	Strategies												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(13)	Total
Expenditures													
Operating Expenses:													
Auxiliary Enterprises	$ 453											$ 513	$ 966
All Other	20	$76		$24	$13	$35	$42	$ 50	$37	$ 70	$15	2,730	3,112
Debt Service	242		$ 14							28			284
New Programs & Projects													
Original Cost	1,285		1,192										2,477
Operating Cost	131		29	29	34			25		84			323
Total Strategic Expenditures	$2,131	$76	$1,235	$44	$47	$35	$42	$ 75	$37	$182	$15	$3,243	$7,162
Receipts													
Change in Cash Balance													-0-
Non-Tuition Receipts:													
Auxiliary Enterprises	$ 652											$ 715	$1,367
Endowment Income												103	103
Gifts & Grants	80		$ 776				$49					324	1,229
Other Income								$117	$23			189	329
Loans Received	1,205		415										1,620
Total Non-Tuition Receipts	$1,937		$1,191				$49	$117	$23			$1,331	$4,648
Net Difference to be Paid by Student Tuition	$ 194	$76	$ 44	$44	$47	$35	($ 7)	($ 42)	$14	$182	$15	$1,912	$2,514

Exhibit IV - 6b (continued)

Proposed for the Year 1971-72
(In Thousand $)

Strategies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(13)	Total
Expenditures													
Operating Expenses:													
Auxiliary Enterprises	$489											$ 555	$1,044
All Other	21	$83		$26	$14	$37	$45	$ 54	$40	$ 76	$16	2,950	3,362
Debt Service	242		$13							28			283
New Programs & Projects:													
Original Cost													-0-
Operating Cost	142		31	21	37			73		91			395
Total Strategic Expenditures	$894	$83	$44	$47	$51	$37	$45	$127	$40	$195	$16	$3,505	$5,084
Receipts													
Change in Cash Balance													-0-
Non-Tuition Receipts:													
Auxiliary Enterprises	$664											$ 721	$1,385
Endowment Income												112	112
Gifts & Grants							$54					349	403
Other Income								$153	$24			204	381
Loans Received													-0-
Total Non-Tuition Receipts	$664						$54	$153	$24			$1,386	$2,281
Net Difference to be Paid by Student Tuition	$230	$83	$44	$47	$51	$37	($ 9)	($ 26)	$16	$195	$16	$2,119	$2,803

Exhibit IV - 6b (continued)
Proposed for the Year 1972-73
(In Thousand $)

	Strategies												
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(13)	Total
Expenditures													
Operating Expenses:													
Auxiliary Enterprises	$528											$ 599	$1,127
All Other	23	$89		$28	$15	$41	$49	$ 58	$43	$ 81	$17	3,188	3,632
Debt Service	242		$14							28			284
New Programs & Projects:													
Original Cost													-0-
Operating Cost	153		33	23	39			81		98			427
Total Strategic Expenditures	$946	$89	$47	$51	$54	$41	$49	$139	$43	$207	$17	$3,787	$5,470
Receipts													
Change in Cash Balance													-0-
Non-Tuition Receipts:													
Auxiliary Enterprises	$665											$741	$1,406
Endowment Income												120	120
Gifts & Grants							$59					376	435
Other Income								$179	$26			220	425
Loans Received													-0-
Total Non-Tuition Receipts	$665						$59	$179	$26			$1,457	$2,386
Net Difference to be Paid by Student Tuition	$281	$89	$47	$51	$54	$41	($10)	($ 40)	$17	$207	$17	$2,330	$3,084

Exhibit IV - 7

Lynchburg College
Computation of Student Capacity

	(1) Maximum Enrollment in all Courses[a]	(2) Aver.No. of Courses per Student	(3) Maximum Student Capacity Col. (1) ÷ (2)
Fall, 1967	10,153	5	2,030
Spring, 1968	10,281	5	2,055
Fall, 1968	9,952	5	1,990
Total Capacity (3 Semesters)			6,075
Average Student Capacity (6,075 ÷ 3)			2,025

(a) The figures were taken from the class schedules for these three semesters, records of which are on file in the Registrar's Office at Lynchburg College.

CHAPTER V

THE TEST OF THE USEFULNESS OF THE MODEL AT LYNCHBURG COLLEGE

The ultimate value of the financial planning model proposed in this research can only be determined over an extended period. In this respect, the model is like other information systems developed to exercise control over an organization. The real value must be determined by the administrators themselves. Yet, it did seem necessary to make some generalizations concerning its utility to administrators in their planning process. A gauge as to the ultimate effectiveness was believed to be possible through a test at Lynchburg College.

As stated in Chapter I, a major reason for using Lynchburg College in this study was the rapport between the various administrators of the College and the researcher. This rapport was particularly helpful in setting the stage for a test of the usefulness of the model. At institutions where the researcher was an outsider, administrators would not have been as open in their comments and their attitude concerning financial decisions may have been more defensive and guarded.

The test meeting was held in October, 1968 at Lynchburg College in which the model was presented for the first time. The Utilization Ratio received particular attention. The individuals in attendance at this meeting were:

M. Carey Brewer, President

John M. Turner, Dean of the College and
Vice President for Academic Affairs

T. A. Bergman, Vice President for
Business Affairs

James E. McKinney, Vice President
for External Affairs

Jack Scott, Director of the Research Center

The Researcher

In the early fall each year a decision must be reached at Lynchburg College as to the tuition rate to charge for the coming year. This was an issue at the time of the meeting scheduled to test the model. While it was not the express purpose of the meeting to establish the tuition rate using the model, it was expected that alternative "trade-offs" between tuition, number of students required, strategic expenditures, and time could be analyzed. However, newness of the concepts proposed in this model limited the degree to which administrators were willing to rely upon it in a single session. In addition, much of the time in the meeting was taken up in enabling the participants to understand the concepts. This too, was a purpose of the meeting.

To lend validity to the proposed methods of this study several questions seemed to need answering in the meeting.

I. Concerning the Lynchburg College strategies:
   A. Do the strategies identified in this research reflect the understanding of the participants of the actual strategies under which the school operates?
   B. Do the strategies in the opinion of those present give proper consideration to the factors enumerated in the framework for formulating an institutional strategy?

II. Concerning the Utilization Ratio (UR):
    A. Does it present the financial problem facing Lynchburg College in a clear and meaningful manner?
    B. Is it a valid measure of the ability of the college to allocate financial resources to strategic expenditures whether they are for capital additions or for academic programs?
    C. Does it focus attention of the participants on the major problem areas?
    D. Was it useful to the participants in reaching decisions from the alternatives available to them?

Question I(A): Do the strategies identified in this research reflect their understanding of the actual strategies under which the College operates?

The discussion of strategy tended to substantiate the list in Exhibit IV-5. Dean Turner expressed concern about strategy #2 which implied admission standards aimed at less than the top high school students. He did agree that in fact the current policy was to accept "average" students as well as the top high school graduates. Mr. Scott's concern over the trend toward off-campus residence in connection with the strategy to become a regional school was well-taken; however, he agreed that at present the College was operating under that policy. Mr. McKinney agreed that it was a college strategy to maintain the moral, ethical, and social standard of a church-related institution (#4) but he doubted that it would be acceptable to 100% of the faculty.

In view of the projected results of the UR (Table IV-2) more discussion was expected on the tenth strategy of attempting to maintain the size of the College between 1500 and 2000 students. The significance of the UR was not explained until after the discussion of strategies but even then very little concern was expressed over the College's ability to maintain the parameters of enrollment set in the strategy. It is the opinion of the researcher that the 1500-2000 level was set under the belief that it was a maximum. Probably the tenth strategy should more appropriately state that the College intended to maintain enrollment at a minimum level which would allow the accomplishment of the other strategies. Some of the participants in the meeting did seriously feel that the College should remain as small as possible and preserve the small liberal arts college atmosphere. Others would accept Dr. Brewer's attitude.[1] He saw the only limit on the growth of the College as the shortage of resources; and he felt that the College ultimately could grow to the extent allowed by those resources and the environment.

Although the Summary of Strategies, Exhibit IV-5, was generally agreed upon, a need for additional statements of strategy concerning sources of resources emerged at least implicitly. Most of the alternatives for improving the UR, while they were stated in general terms, were concerned with sources of additional revenue.

The thought also emerged that debt financing for the new student center was necessary even though the ultimate source of equity financing was not known. The need for the building was felt to offset the financial difficulties such as was implicit in Dean Turner's reference to the impossible situation of a UR in excess of 100%.[2] The consequences of undertaking programs without 100% financing was seen by the group to increase the UR. In fact, an untenable UR would probably be reached at something less than 100%, possibly 90% at Lynchburg College. The nature of the denominator, the planned capacity, would make 100% utilization of resources difficult.

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[1] Appendix A-1, p. 31.

Question I(B): Do the strategies in the opinion of those present give proper consideration to the factors enumerated in the framework for formulating an institutional strategy?

The question of future environmental effects on objectives was discussed by Mr. Scott when he raised the point that a noticeable trend seemed to be developing in which students are seeking living accommodations off campus. He said this was happening at a time when Lynchburg College was increasing its dormitory capacity at a rapid rate. Dean Turner strengthened this point by mentioning that a number of the senior men were already moving out of dormitories.

The changing local environment played a significant role at Lynchburg College in adopting the strategy of becoming a regional school. Lynchburg College in the past had drawn at least half of its students from the local area that was now being served by a new community college. The tuition differential meant that there was almost certain to be a loss of local students and, in fact, this loss had become noticeable.

The alternative open to Lynchburg College was to attract students from other regions. This approach meant expanding the Admissions staff, building dormitories and dining facilities, meeting other needs of a more residential college. The high cost of these items could not be met with enrollment levels Lynchburg had been accustomed to, so it was necessary to adopt a strategy of increasing the number of students to at least 1500. The realities of the financial position, as pointed out in the Computation of the Utilization Ratio, were that 1500 students would not be sufficient and actually more than 2000 would eventually be required. The size of the student body could be minimized if the amount of outside revenue generated by the Development Office could be increased.

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[2] Exhibit V-1, p. 159.

Other environmental difficulties were recognized by the participants at the meeting. Mr. McKinney made several comments referring to the difficulties in obtaining gifts and grants which was also restrained by the environment of private higher education. The magnitude of the operation of a college was much greater than that 20 years ago. In earlier history of private education, alumni, friends, and churches were able to make gifts and grants that were significant to the financial well-being of a college. Today these gifts, while they have increased, have not increased fast enough to keep pace with the increased demand for education in the nation. This demand has brought about great emphasis on state-supported education. State institutions have greatly increased their enrollments and have expanded with new colleges and universities. The much lower cost of state education has enticed students who probably would have otherwise gone to private schools.

The environment of higher education has also been affected by the massive support from the federal government.

Much of this government support requires that the institution match it with funds of their own. State institutions have been able to match federal funds through budget allocations from the state. Private institutions have to match federal funds with resources of their own or with funds from private sources. This limitation of private schools has made it relatively easier for state institutions to secure federal grants than the private schools.[3]

Another contributing factor has been the relative size of the schools. Federal grants quite often are awarded for substantial projects requiring large numbers of people, facilities, and time. The relative smallness of private colleges makes it difficult for them to compete for and undertake such projects and their role has been to look for smaller grants for smaller projects. Finally, many of the requirements imposed by the federal government are not easily satisfied by private schools which have charters and trustees that limit their activities. These restrictions are often more easily complied with by state institutions.

The environment of private education today is also influenced by church relationships. No single relationship exists and even in a specific institution the situation is highly fluid. This fluidity was the case at Lynchburg College where the Trustees had recently voted to remove any reference to a church relationship from the Charter. Brewer also made the point several times that the limited financial support from the church constituency may not be sufficient in the future. If church ties stood in the way of more significant financial support from other sources, for instance the federal government, it was his position that Lynchburg College may have to give up its association with the church.

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[3] At Lynchburg College this difficulty with government grants was evident in the experience with funds from the Higher Education Act of 1965 and the State Technical Services Act.

In summary several points can be made about the effects of the environment. By constructing dormitories, a student center, and other major commitments, Lynchburg College may have forced itself into a position of requiring larger numbers of students or other sources of revenue than was available. The trend at the College toward greater cultivation of the federal agencies offering support may mean a decline in the private status of the College as evidenced by the changing church relationship.

Since so much of the time at the meeting was taken up discussing the environmental problems, limitations on resources, and the resulting effect on strategies, very little was said about other constraining factors in the framework. It is also recognized that some topics such as faculty and staff capabilities were not appropriate for discussion in the presence of a member of the faculty (the researcher).

Question II(A): Does the UR analysis present financial problems facing Lynchburg College in a clear and meaningful manner?

While the participants were able to see that the rising UR was an undesirable situation for Lynchburg College, it was evident that there was a need for a type of "target" UR. The meeting raised the question of what the target range or value of the UR should be. In Chapter IV the point was made that the computation of the UR should be compared with a target which should be established by the board of trustees. This had not been done and, in fact, the need for this target UR emerged from this meeting. Had the participants at the meeting been given a desired range, there might have been more pressure for concrete proposals for improvements to the UR. A mutually agreed upon range for the UR between the trustees and the administration would provide a common goal for the institution's financial programs much the way an agreed upon rate of ROI does for the business firm.

At Lynchburg College only 15% of the income is derived from endowment income, gifts and grants, and other outside sources (Exhibit IV-4). There is no wealthy constituency from which to expect major contributions, consequently, the burden of financial support is on the students themselves. Because of this situation, strategic expenditure commitments are ultimately limited to the combination of the number of students enrolled multiplied by the tuition, room, and board rates. To commit expenditures beyond this source of revenue requires borrowed funds and invites substantial risk.

As was stated earlier, Dean Turner, who had no special training in the use of quantitative data, was able to see that a UR in excess of 100% was theoretically impossible. The weight of the UR computation was obviously grasped after a few minutes. He had not seen the figures prior to the meeting. Others in the meeting were equally aware of the significance of the UR and were able to interpret potential financial changes in terms of the effect on the UR.

Of particular interest was the value of the UR in helping formulate alternatives for the 1969-70 tuition rate.[4] The alterantive of leaving the tuition rate at existing levels was weighed against the number of students required and against various "trade-offs" of strategic expenditures. The final rate was not set but the issues discussed in this meeting to test the UR did seem to provide additional insight into the alternatives available.

Question II(B): Is it [the UR] a valid measure of the ability of the College to allocate financial resources to strategic expenditures whether they are for capital additions or for academic programs?

To a great extent the eventual usefulness of the UR as a quantitative instrument will depend upon the willingness of administrators to apply it. At Lynchburg College about 85% of the current fund income has historically come from student charges. Because of this high percentage, any plan for new projects or changes in existing programs must be evaluated in terms of the number of students that can be expected. This fact makes the UR a valid measure of the financial feasibility at Lynchburg College since it is expressly intended to relate strategic expenditures to students required.

The Lynchburg College analysis did raise a question that had to be answered in the tests at the other colleges and universities. Did the UR have applicability in schools where the proportion of revenue received from students was less than at Lynchburg College? This question will be considered in Chapter VI dealing with the tests at other schools.

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[4] Exhibit V-1, pp. 162-163.

Question II(C): Does the UR focus attention of the participants on the major problem areas?

In the brief period of one meeting all the financial problems at Lynchburg College could not be brought to the attention of the group but the evidence from matters that were discussed is that the UR was effective in keeping attention on the problem areas. The decision concerning the 1969-70 tuition rate tended to force attention on a number of alternatives for financing the proposed strategic expenditures. It soon became apparent that the rising UR would be difficult to restrain by increasing tuition as an only course of action. Certain other alternatives were discussed and these are summarized in Exhibit V-1 (p. 165). The computation of the new UR after the alternatives were summarized was approximated by the researcher on a slide rule. These suggested changes were stated in general terms but in an actual application of the UR more concrete sources of improvements in the UR would be anticipated. The following Tables, V-1 and V-2, formalize the alternatives suggested during the meeting.

TABLE V-1

SUMMARY OF ALTERNATIVE FOR CHANGES IN UR

From Exhibit V-1, p. 165

	Incr. (Decr.) in "Net Diff."
1) Increase in endowment of $1.0 million would increase endowment income by about	($ 50,000)
2) Increase federal grants (there were specific proposals already placed with federal agencies and it was assumed that these could be used for current operations)	($100,000)
3) Increase size of certain classes when space was available in the new Fine Arts Building--this was expected to save 3 - 4 teachers	($ 50,000)
4) The alternative of not building the Student Activity Center was no longer available	- 0 -
5) Increase tuition - this would not change the "Net Difference" but it would result in the need for fewer students which is accounted for in the UR by dividing the "Net Difference" by a larger tuition rate	- 0 -
6) If idle capacity develops in the dormitories of 100 beds as suggested, this would result in an increase in the "Net Difference" by approximately $320 per vacant bed, or	$ 32,000
Change in "Net Difference" resulting from the Meeting	($168,000)

TABLE V-2

SUGGESTED CHANGES IN THE UR AS A RESULT OF THE PLANNING MEETING

Year	"Net Diff." from Exhibit IV-6b (000 omitted)	Proposed Decr. from Table V-1 (000 omitted)	Adjusted "Net Diff." (000 omitted)	New Aver. Tuition	SR/SC(c)	UR
1968-69	$2057	- 0 -(a)	$2057	$1340	1535/2025	.758
1969-70	2380	($168)	2212	1420(b)	1551/2025	.765
1970-71	2514	(168)	2346	1440	1629/2025	.805
1971-72	2803	(168)	2635	1450	1817/2025	.897
1972-73	3084	(168)	2916	1450	2011/2025	.993

(a) At the time of the meeting the 1968-69 budget had already been approved by the Trustees.

(b) The intent of Brewer's comment (p. 163) was that a $50 average increase in tuition would result from a $100 increase in tuition to the entering class. The $100 increase would apply to each entering class for four years until all students were paying the higher rate.

(c) SR/SC refers to the students required divided by the student capacity.

At future planning meetings of the type held to test the UR it would be desirable to have specific strategic expenditures evaluated as possible "trade-offs" to arrive at a feasible long-range plan. Although the comments during the initial meeting did not clearly indicate it, there also emerged an underlying opinion among some of the administrators that certain planned strategic expenditures might be postponed--the proposed Fine Arts Building, for example. This building was to be financed with about two-thirds private and federal grants and one-third borrowed funds. Some administrators felt that it might be prudent to be certain about the source of funds before committing the construction of the building.

Even though the suggestions offered during the meeting for improving the UR were more general than was intended, there seemed to be a measure of understanding among the administrators to justify further use of the model. As the Lynchburg College administrators become more familiar with the concepts of the model, particularly the UR, it probably will take on even greater value.

Question II(D): Was it useful to the participants in reaching decisions from the alternatives available to them?

Additional insight was provided by the UR approach in reaching a decision concerning the tuition rate for the year 1969-70. Obviously the tuition rate would have been set without the UR technique. The model did allow the administrators to consider tuition in conjunction with other long-range programs and projects under a constraint of the number of students required to do what was proposed. It can be reasonably concluded that the model provided guidance that had not been available to the administrators previously.

No decisions were reached in this meeting and it seems unreasonable to expect that there would be. The newness of the concepts must be overcome to allow the administrators more confidence in the model. The meeting was not intended as a decision-making session. Quantitative data cannot make the decisions or initiate action. The more desirable alternatives from a financial point of view can be spelled out and the UR showed promise of effectiveness in this respect.

The UR is basically a financial control measure and its ultimate effectiveness hinges upon whether it can be relied upon by trustees and administrators in making decisions about the allocation of resources. With this kind of measure available to them, and with more familiarity with the technique, the decision-making process should be considerably improved.

CONCLUSIONS FROM THE TEST

Several conclusions can be drawn from the experience in the planning meeting.

1) The three-stage financial planning model is more than just a logical way of classifying accounts for recording purposes; it is a planning device that makes analysis and decision-making more effective. Its three stages are:
    a) Strategy formulation using the framework to guide in considering all factors,
    b) Identification of strategic expenditures with strategies, and
    c) Computation and manipulation of the Utilization Ratio.

2) The UR demonstrated the possibility of becoming a common denominator to guide the planning process in a concise manner that is not available in the typical voluminous long-range budgets.

3) The UR served as a guide in relating costs of programs and projects to available resources and in this respect served much the same function as the ROI analysis does for industry.

4) The UR can be valuable in converting broad strategy statements into tangible tools of analysis and it allows administrators to "get a handle" on their policy.

5) There is a need for strategies concerning the source of resources as well as the allocation of resources through strategic expenditures.

6) There is a need to develop a "target" UR, to be approved by the trustees, for guidance to administrators as they design a workable set of strategies for both resource determination and allocation.

7) The model must be tested in institutions with **larger** sources of endowment and gift and grant income than Lynchburg College.

EXHIBIT V - 1
LYNCHBURG COLLEGE
PARTIAL TRANSCRIPT OF THE PLANNING MEETING USING THE UTILIZATION RATIO

The people in attendance were:

Dr. M. Carey Brewer, President
Dr. John M. Turner, Dean of the College & Vice President for Academic Affairs
Mr. T. A. Bergman, Vice President for Business Affairs
Mr. James E. McKinney, Vice President for External Affairs
Mr. Jack Scott, Director of the Research Center
The Researcher

The following material was available to the participants:

Exhibit IV - 5,	Summary of The Objectives and Strategy of President M. Carey Brewer's Administration at Lynchburg College
Exhibit IV - 6b,	Schedule of Strategic Expenditures and Revenue Constraints
Table IV - 2,	Computation of Utilization Ratio
Exhibit V - 3,	Proposed Strategic Expenditures for Capital Additions
Exhibit V - 2,	Alternatives for Improving the Utilization Ratio at Lynchburg College

The meeting was opened by the researcher with a statement of the purpose of the meeting and an explanation of the study that had been undertaken. There followed a one hour discussion of the thirteen strategies. Most of the questions and comments were for the purpose of clarification and do not add to the earlier conversations with Dr. Brewer, Dean Turner, and Mr. Bergman included in the Appendices.

RESEARCHER: I want to talk about our student capacity first. I am the first one to admit that it is a vulnerable figure. Here's what we can do though. The student capacity is not a result of dormitory capacity. We keep our dormitories filled up almost 100%, but we also have "day students." This means we have additional capacity. Our classroom capacity -- the college's capacity then is more than just dormitory and dining hall capacity. I think we would all agree on this. It's, or seems to be, the smaller of the maximum that the professors will accept in their classes. This is in no sense a "true" capacity or even an optimum capacity. It is a "planned capacity" under our present assumptions and these assumptions can be changed. To get the capacity figure I used the maximum enrollment allowed in each class on our "class schedule" for the last three semesters. I averaged those and it came out to be 2025.

Dean Pratt (Registrar) did something similar from a different point of view. He got about 2100. We did another study from a third point of view and got about 1975. The average of all three studies came out to be 2025. I recognize that you can change that planned capacity by saying that we are going to schedule classes from 8:00 in the morning to 8:00 at night or we are going to have Saturday classes but we would need to hire more faculty to teach them. What I am saying is 2025 represents, at this point in our history, the "planned capacity" at Lynchburg College.

I don't say that it is an approach that every college or every university would use either. Each one of them would have to work out their own capacity.

JACK SCOTT: This makes an assumption that a lot of present classes are going to continue substantially in the format in which they are now given. I think even over the period you are projecting here, it is possible that many classes can be, and maybe should be, taught in quite a different way.

RESEARCHER: This is one of the alternatives we might explore in a moment.

McKINNEY: One thing that I would raise questions about is the use of the terminology "planned capacity."

I am really not sure that this, regardless of what formula you use to come at it, is the planned capacity.

RESEARCHER: Plans come from a lot of different sources, Jim. Certain classes are planned to be certain sizes. The professor does it if nobody else does. Perhaps you don't want this to be an explicit plan but, in fact, the realities of the college are such that the professors determine capacity.

McKINNEY: Yes, a capacity can be derived from a number of different plans, but to say that this constitutes a "planned capacity" is going beyond where I would want to go. I don't think it is a "planned capacity."

RESEARCHER: I'm not saying that we can't change our plan. As it is right now, implicitly, this is what I see as our capacity until we change our attitude or something about what we are doing.

TURNER: These decisions are guided by the professor's feelings. For instance, the Ford Foundation went over this thing for years in education meetings; that one professor can teach 300 students just as well as you can teach 25. Several of us don't believe it; and I don't believe it either.

BREWER: There are some differences here. One professor told me that when you get beyond 20 or 25, you may as well make it a 100 assuming you have grading assistance.

TURNER: But he is about one in 25.

BREWER: Another thing, I am not saying it is the same with all disciplines, with all subjects. There are differences depending on the nature of the course. An English teacher, for example, who has to work with English composition has a lower limit than the History teacher who can give more objective tests and other things. Again these are gross generalities we are talking about. But it is subject to differences in opinion.

RESEARCHER: As I said I used the maximum enrollment in each of the classes. You have art classes with 15 maximum. You have history classes with a 40 maximum. Actually we fill up 40 in those history classes, but we do not fill up 15 in the art classes. As a practical matter, I think we probably will never fill it up.

BREWER: Now this is where academic planning comes in. In the art department, we are adding programs in art education to meet the standards or requirements for teacher certification in art. Once we do that we anticipate more students in art and more students in the art classes. What I am saying is it is possible that this will result in more students in each art class that we offer.

RESEARCHER: I accept that. But my real point here is that the figure 2025 is not a maximum capacity. There are some courses that probably will never reach capacity so that means we are not likely to reach 100% capacity without changes in our plans.

BREWER: Not unless we have another GI Bill, post-World War II type of climate, in which we cram kids in and get 200% in some areas. You are right. You will never reach the ideal or the theoretical 100%.

RESEARCHER: I am sure that all of you already recognize in the last column what has happened to our Utilization Ratio. It goes from 75% this year, to 85% the year following, to 89%, to 98%, and in the fifth year to 108%.

TURNER: Would you tell me in simple words exactly what this Utilization Ratio means?

RESEARCHER: It is the ratio of the students required to do the things that we have planned to the student capacity figure of 2025. The students required was determined by dividing an average tuition rate into that net difference to be paid by students here at Lynchburg College.

TURNER: When you go over 100%, you have an impossibility, haven't you?

RESEARCHER: I would like to suggest that you have an impossible situation at about 90% because you can't get all your courses up to 100%. Remember what I did was to increase costs by 8% each year without adding to the tuition rate or the numbers of students.

The last page you have represents some alternatives for improving the Utilization Ratio. Look at it to see if this represents a realistic view of alternatives available to us in the next five years at Lynchburg College.

McKINNEY: Some of our board members have been concerned about us not giving enough emphasis to endowment. We haven't for the simple reason that we have another emphasis. We can't have two primary emphases. You have to have one and then you go to something else. We are beginning to come to the point maybe by 1970 when we can shift the emphasis to endowment. I don't think we can do it in the next year and a half.

RESEARCHER: Well, suppose you got a million in endowment, Jim, what would that do to the Utilization Ratio?

McKINNEY: It would mean about $50,000 less for students to pay, we would need maybe 35 less students and the Utilization Ratio would improve.

BREWER: Let's look at tuition as an alternative. Five years ago we would not have estimated, projected, and published the fact that our tuition needs would total $2,200 for the opening of September, 1968. In September 1964, our charges were $1,400. We made a substantial increase in that year. In 1973, that is in five years, I think either your 8% cost increase will not apply or the tuition charges will go up. As you and I have mentioned if you balance this thing out and charge what you have to charge, then the key is student support. If you get the students, you have your program. Somewhere along the line, you are pricing yourself out of the market. We all know this.

Let's look at some of the other strategies. So far federal programs are not for direct operating expenses. It is quite possible we may soon get direct federal subsidies on a "head count" basis. In five years time, who knows what will happen? Whether we get these in the form of direct subsidies on a "head count" basis or we get certain grants for program improvement, it can be channeled into operating expenses. Even $100,000 means we need about 37 fewer students to break even.

BREWER: Suppose we got 2.2 million dollars in unrestricted gifts. Maybe instead of paying off our indebtedness on Tate Hall and Burton Center, we would buy 7-1/2% twenty-year bonds and let that take care of the obligation for us. There are a number of things that could change our total situation. When we get our new Fine Arts Center, we can introduce a whole range of possibilities. If we need to we can have a class meet with 130 students whereas today we have a limit of 50 or 60. This means that 90% or 85% of all of our classes would be small, but in those certain segments which would be most suitable, we could hedge by having a few large classes meeting in those very large lecture halls in the Fine Arts Center. That's a possibility that could save 3 - 4 teachers and about $50,000. That would reduce SR by about 33 students.

Let's look at capital expenditures (Exhibit V - 3). Burton Center and Tate Hall are the buildings that we have financed with private sources. We have debt service and operating cost of $108,000 a year for the student center and a $168,000 a year for Tate Hall. This is where, if we had a chunk of money, we would put it to reduce this commitment. Contrasting with this, the gymnasium is funded partly by a federal loan at 3% for 30 years. We have estimated an annual operating cost of $35,500 and $15,470 for principal and interest. We wouldn't write that off short of 30 years for anything. We will put our money on something else and keep that indebtedness because it is a very favorable situation. The Student Center and Tate Hall annual costs total $276,000 and mean that we need 190 additional students. Assuming our enrollment is not affected, we could reduce the UR by almost 10% without them. The fact is that we must have these buildings to maintain our regional, residential strategy.

McKINNEY: I think there are several things we have to face; within the next week as a matter of fact. We are to have a conference with the Admissions people very soon so that we can begin to think about our tuition charges for 1969-70. The Admissions people start going out about the 20th of this month recruiting for next year. For example, from the analysis here in front of us it is clear to me that our present tuition rate will not allow us to cover our expenditures. The question is, would it be easier to get 1737 students keeping tuition constant or would it be easier to get, say, 1650 students, 100 more than we have this coming fall, at a slightly increased rate.

BREWER: An increase in enrollment is restricted by a very limited local market, in the first place. Dormitory capacity is usually filled so we don't have much capacity to increase residential enrollment. I think you and the Admissions people will have to take the general approach that any increase in the published charges for the current year will be modest. In the last few years we have never increased more than $100, and the Board does not accept that just yet. We need a judgment by the time we go into the Board meeting on next year's charges. If we increased our average tuition by just $50 for 1650 students, we would need about 58 less students.

SCOTT: Do you have some concern about the question of living on and off campus over a period of time in the future? The trend I think is away from the residential arrangement. As a matter of attracting students, if you are going to force them to live on campus, it makes it relatively less attractive.

BREWER: Up to this point we have found that if we can't offer them a choice of dormitory space and guarantee it, we eliminate a large amount of the interest in Lynchburg College.

SCOTT: I agree. I think the rule has been that to the extent that we have dormitory space available, freshmen are required to live in the dormitory. Is that correct, Jim?

McKINNEY: All girls are also required to live in the dormitory.

SCOTT: If this kind of rule interfered with getting students, could you change it?

BREWER: Well, sure we could change it, but right now it is a positive inducement if we can tell the high school senior that up until April 1st we can guarantee dormitory space.

McKINNEY: Last year, for example, we had students who did not come here because they could not get dormitory space.

SCOTT: In the next two years you may have a very substantially different situation because of excess dormitory space. We will be increasing the dormitory capacity while the trend is toward more students living off campus. At $320 each, 100 unfilled beds means $32,000 to be paid by tuition increasing the UR by about 23 students.

McKINNEY: This is happening right now. Although we are meeting almost 100% of the budget, we are going to have dormitory space in the men's section because the upper classmen are moving out.

TURNER: Some women would like to move out also if we would let them. We have this pressure every year from senior girls.

BREWER: In general, good dormitory accommodation is an inducement at the present time. Then, too, with the improved dormitory situation we have quality. I think it will compete with the kinds of space available off campus so that more of our students will desire to live on campus. This is a possibility.

RESEARCHER: Our time is drawing short so let me summarize the alternatives you have raised for improving the Utilization Ration.

First, Mr. McKinney raised the possibility of obtaining an additional $1.0 million in endowment, which would increase income by about $50,000 and reduce the UR by..............35 students.

Second, Dr. Brewer suggested that $100,000 in federal grants would reduce the required number of students by....... 37 students. (As he pointed out, this will depend on how it must be used.)

Third, Dr. Brewer also suggested that if we could hold larger classes in the Fine Arts Building, we might save 3 - 4 teachers and about $50,000, this means....... 33 students. (There is a question of how this decision might be affected by tenured positions though.)

Fourth, the president also pointed out if we had not build the Student Center and Tate Hall, we would not have $276,000 in operating cost and debt service. This means we would need a smaller number by 190 students.

Fifth, Dr. Brewer suggested that if we increase tuition by an average of $50 for 1650 students, it would mean we need fewer by about.......... 58 students.

Finally, Mr. Scott suggests that the trend in dormitory quarters may create idle capacity and, if we have 100 unfilled beds at $320 per year, we must add $32,000 to the "net difference to be paid by students" since we would have practically no reduction in cost. This would increase the number of students we need by .... 23 students.
I think we can ignore the fourth alternative since it is no longer available to us. The other alternatives would result in a net decrease of 140 students required.

Feeding this into the Utilization Ratio in each year after the current one (1968-69) means we would improve it to:

.77 in 1969-70
.81 in 1970-71
.90 in 1971-72
1.00 in 1972-73

With more time I am sure other alternatives could be brought out and they possibly would be as reasonable as these. It is pretty clear from this discussion, it seems to me, that the UR measure can be effective in helping establish tuition rates, particularly since we offer to maintain the rates to a student for the four years he is with us.

EXHIBIT V - 2

GUIDES FOR IMPROVING THE UTILIZATION RATIO AT LYNCHBURG COLLEGE (a)

I. Reduce existing programs, courses, or departments (must result in reduction in expenses)
    - A. Academic Departments or courses
    - B. Administrative departments
    - C. Other

II. Revise strategies
    - A. Eliminate projects in "Partnerships for Progress"
    - B. Discard strategy

III. Increase gifts
    - A. To Endowment (only 4-5% of this will be current fund income)
    - B. Undesignated (100% to Current Fund)
    - C. Designated to projects in "Partnership"

IV. Obtain federal grants
    - A. For current operations (not available)
    - B. For projects included in "Partnership" (already have maximum funds available)
    - C. For strategic expenditures

V. Increase rate of student charges
    - A. Tuition rate
    - B. Room charge
    - C. Board charge
    - D. Prices in Bookstore

(a) The alternatives listed in the exhibit apply to Lynchburg College only and are not necessarily the steps that other schools should take. It must be remembered that Improvement in the UR refers to the steps necessary to get it within some pre-determined range. At Lynchburg College there was a general feeling that the UR must be reduced although this was never made explicit.

VI. Increase number of students (b)

A. Resident - Net Increase in income per student $1,860 approximately

B. Non-Resident - Net increase in income per student - $1,410

VII. DEBT FINANCING

A. Short-term - Funds borrowed in late spring or early summer should be capable of repayment in fall. Under this condition, the model should not be affected.

B. Long-term - Debt can be used as a source of financing and improve the UR in the year the loan is received, however, the principal and interest repayment will increase the UR in future years. For example:

Dormitory for 200 students is constructed and financed by a gift plus a loan for 50% of cost.

Cost of building - 200 X $5000 (rule of thumb) - $1.0 mil.

Amount of Loan - $500,000, assume 20 year @ 5%
Room Charge - $320 per year per Student
Debt Service - $37,500 approx. average
Operating Cost - $30,000 estimated
Assume the year of construction and loan is "0", then

Year	Expend.	Revenue.	"Net Diff."
0	$1.0 mil.	$1.0 mil.	0
1	$67,500	$64,000	$3,500
2	$67,500	$64,000	$3,500

This illustration assumes 100% occupancy and a stable cost of operating the building.

(b) Incremental income accruing to the College per student was estimated from accounting records as follows:

	Resident	Non-Resident
Tuition & Auxiliary Enterprise Income	$ 2305	$1505
Out-of-pocket costs	445	95
Incremental income to College	$ 1860	$1410

EXHIBIT V - 3
Proposed Strategic Expenditures
for Capital Additions
Lynchburg College
As of August 1, 1968

	Burton Student Ctr.	Tate Hall Dorm.	New Girls Dorm.	Library Annex.	Turner Gym.	Phys. Art. Bldg.	Fine Arts. Bldg.	Total Cap. Addn.
Completion Date	9/68	9/68	8/70	7/69	2/69	9/69	6/70	
Cost:								
Buildings	$ 937,400	$1,652,500	$1,205,000	$287,806	$1,159,280	$584,900	$1,110,982	$6,937,868
Furnishings	195,600	95,700	80,000	28,630	28,300	51,420	80,800	560,450
Personnell, Additional								
Other								
Total	$1,133,000	$1,748,200	$1,285,000	$316,436	$1,187,580	$636,320	$1,191,782	$7,498,318
Source of Financing:								
Current Oper. Funds	$ 195,600	$ 95,700						$ 291,300
Development Program			$ 80,000	$ 30,726	$ 214,731	$211,130	$ 478,185	$1,014,772
Gifts, private				76,288	167,820			244,108
Grants, federal				85,342	328,029	173,270	298,597	885,238
Loans	937,400	1,652,500	1,205,000	124,080	477,000	251,920	415,000	5,062,900
Total	$1,133,000	$1,748,200	$1,285,000	$316,436	$1,187,580	$636,320	$1,191,782	$7,498,318
Annual Repayment of Principal & Interest (from Current Funds	$ 66,690	$135,400	$ 39,765	$ 4,095	$ 15,470	$ 8,313	$ 13,700	$ 283,433
Annual Operating Costs (Est.)	$ 42,300	33,000	40,000	12,250	35,500	24,300	26,700	214,050
Total	$ 108,990	$168,400	$ 79,765	$ 16,345	$ 50,970	$ 32,613	$ 40,400	497,483

Source: Vice President for Business Affairs
Lynchburg College

CHAPTER VI

THE APPLICABILITY OF THE MODEL TO OTHER PRIVATE SCHOOLS

The research at four other private schools was conducted to accomplish two purposes. It was used first in Chapter III to support the findings in the higher education literature concerning the administration of expenditures. The findings were compared with the management of capital expenditures in business on three major points concerned primarily with the planning process, and minimal attention was given to the procedural aspect of administering expenditures. The three major points in the comparison were;

(1) the degree to which abstract missions were converted into workable strategies,

(2) the extent to which measures of financial feasibility were used to evaluate programs and projects,

(3) the relative clarity in the organizational structures for lines of responsibility and authority.

With this comparative background the financial planning model was developed for private colleges and presented in Chapters IV and V. The model required considerable attention to the development of concrete strategies for accomplishing the institutional mission and it resulted in a quantitative measure (the UR) which is intended to evaluate the financial ability to accomplish the strategies. The model is intended for use by the top administrators as they attempt to bridge the gap between the academic responsibility of the faculty and the financial responsibility of the trustees.

The second purpose of the work at the four test schools was to determine the general applicability of the model beyond Lynchburg College. As it was pointed out in Chapter I, Lynchburg was typical of other private colleges in several ways, but at the completion of the work there it was not known whether other characteristics would limit the model's applicability. It was not the purpose to determine the specific effect on the model of each of the many characteristics of the schools selected. Nor was it the purpose to evaluate or criticize their strategies. The intention was to determine if the applicability of the model in private schools would be destroyed by the presence of different institutional and organizational characteristics. The schools chosen differed from Lynchburg in age, size, organizational complexity, growth trends, endowment size, geographic location, major sources of income, church affiliation, institutional objectives, and administrative competence and attitude.

Certain general impressions concerning the list of characteristics were born out by the research at the test schools. The age of the schools had only indirect significance to the proposed model. The older schools, W&L in particular, had had longer to generate alumni with the financial ability to make major contributions to the school but this characteristic was evaluated more directly in the consideration of major sources of income and endowment size. While these latter two characteristics had an effect on the numerical value of the UR, they did not limit the methodology of the proposed model.

Church affiliation had no effect on this study since the churches exercised little or no direct control over the institutions. Church affiliation did represent an additional source of outside income. It was also one of the environmental factors to be considered as part of the framework for strategy formulation but it did not deter the use of the model.

Growth trends, institutional objectives, and administrative competence and attitudes will all have a profound effect on the strategies adopted by the institution and should be considered as part of the strategy framework analysis but, again, they do not seem to limit the applicability of the model. To some extent these factors contributed to the value of the model in that each could be objectively evaluated as part of the strategy analysis and clearer statements concerning these characteristics could be developed.

Of all the characteristics listed, only size and organizational complexity seemed to have a significant effect on the methodology required by the model. This was determined from the work at Duke University.

It should be emphasized that the effectiveness of the model as a measure of financial feasibility was not tested directly. This type of test was conducted at Lynchburg College (Chapter V). Nor was it the purpose to compare the proposed model with other approaches to long-range planning. To a great extent the need for the data from other schools resulted from the Lynchburg College work and was intended to:

(1) evaluate the effect on the model of
  (a) larger sources of non-tuition income than was found at Lynchburg,
  (b) larger size and organizational complexity, and
  (c) different constraints on planned capacity;
(2) assure that differences in characteristics other than in (1) had no effect on the development of the model;
(3) determine the ability of other administrators to articulate their strategies given the definition of the concept as used in this study;

(4) demonstrate that the data necessary to classify and accumulate strategic expenditures and to compute the UR was available at other institutions even though the terms may have been new; and

(5) determine the general applicability of the UR in measuring the financial feasibility of the programs and projects specified by the strategies in effect at the schools.

Outlines of the characteristics of each school used in this study may be found in the following exhibits.

Lynchburg College	- Exhibit IV-2
Hiram College	- Exhibit VI-A1
Stetson University	- Exhibit VI-B1
Washington & Lee University	- Exhibit VI-C1
Duke University	- Exhibit VI-D1

Hiram College was selected because of its rural location, which was quite different from that of Lynchburg College, because it was somewhat smaller than Lynchburg College in numbers of students, and also because its president had a reputation for competence in the financial management of colleges and universities. He had done considerable work with the Ford Foundation in the area of long-range planning. He had come to Hiram two years earlier to provide leadership in resolving financial difficulties resulting from several deficit years.

Stetson University was selected because of its close church affiliation and because of its financial difficulties in the recent past. Its president was relatively new in his job and had been selected for his leadership experience, particularly in the area of church relations. Stetson's organization into four separate schools on two different campuses was also of interest.

Washington & Lee University was selected because it was considerably older than Lynchburg College and its endowment funds and income from gifts and grants were much greater than those of Lynchburg College. At W&L it was found that the objective was to maintain stability in their existing programs with only minimal evolutionary change; their growth expectations were quite conservative in relation to the expansionary plans at Lynchburg.

Duke University was selected purposely to test the model for the effect of larger size and organizational complexity. No attempt was made at Duke to develop strategies, strategic expenditures, or the Utilization Ratio. The sole purpose was to determine whether the two factors, larger size and complexity of its organization, would affect the inputs into the model.

The research findings are presented in four sections in the order in which the studies were concluded.

Section A - Hiram College
Section B - Stetson University
Section C - Washington & Lee University
Section D - Duke University

A - HIRAM COLLEGE

History and Purpose[1]

Hiram College was founded in 1850 under the name of Western Reserve Eclectic Institute. In 1867 it was reorganized with full collegiate rank and the name was changed to Hiram College. It is located in the town of Hiram in the Western Reserve region of Ohio. Although this is one of the nation's principal industrial regions, Hiram is in a rural environment. The major cities of Cleveland, Akron, and Youngstown are approximately thirty-five miles away with smaller cities somewhat closer. There are a number of major universities, small private colleges, and community colleges surrounding Hiram.

Hiram College is a private non-profit college related to the Disciples of Christ Church. On the college-multiversity spectrum suggested in Chapter I, Hiram would be considered a college with little visible motivation toward a "miniversity". The relationship with the Disciples of Christ denomination is described briefly along with other characteristics of the College in Exhibit VI - A1.

The financial position of the college as of June 30, 1967, is presented in Exhibit VI -A2. The financial position represents a marked improvement over previous years in which deficits had occurred.

In spite of its church relationship, Hiram is non-sectarian in its outlook and dedicated to teaching the liberal arts and sciences. The primary aim is to provide a liberal undergraduate education to young men and women who plan to continue their education at the graduate level.

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[1] Data in this section was taken from the BULLETIN OF HIRAM COLLEGE, 1967-69, pp. 5-6.

THE STRATEGIES IDENTIFIED AT HIRAM COLLEGE:

The following list of strategies were identified in conversations with or documents furnished by Elmer Jagow, President, Ernest E. Conklin, Business Manager, and Paul Sago, Director of Development. The list of strategies has been seen and approved by President Jagow as reflecting the existing objectives and method of operations.

Strategy #1: To initiate new academic programs only if they were desirable both from an educational and a financial point of view. The position of the administration was that programs recommended by the faculty would be acceptable only as substitutes for existing weaker ones. Innovation and creativity would be sought in ways of presenting the existing curricula and extra-curricula programs such as was represented by the "Task Force" deliberations on curriculum.[2]

Commentary:

President Jagow had come to Hiram two years prior to this study from Knox College where he had been Vice President for Financial Affairs. His reputation in financial matters had been an important factor in his appointment. Hiram had previously been operating at a deficit that had caused considerable concern to the Board of Trustees. The deficit had been eliminated by the time of this study.

In past years Hiram had become known for its willingness to innovate in undergraduate education. This had resulted in many additions to the program that had been economically unsound and had contributed to the deficits in past years. The new policy of adding to the curriculum only as a replacement for some existing program was a reaction to these deficits. They still looked for innovation in the program, but only if it could be expected to cause no increase in the operating costs of the college either in the current year or in the foreseeable future. In terms of the UR, they would not undertake a program that was expected to result in an increase in the UR.

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[2] Appendix B-1, pp. 79-81, and pp. 105-106.

The "Task Force" deliberations referred to in the strategy were from a committee of faculty and administrative staff constituted to determine methods of offering a creative curriculum within the resource limitations of the college. The report from the committee that was about to be proposed to the general faculty was aimed at de-emphasizing the traditional regimentation related to the course structure and to provide more "one to one" contact between the students and the faculty. The report did not call for an expansion of the faculty or other strains on resources that might have current financial implications.

Strategy #2: To remain an undergraduate liberal arts institution providing students with the background necessary for success at the graduate level. It was not intended that the "classical" understanding of liberal arts was to be offered but more modern course offerings would also be included that, by earlier standards, would be considered "voncational".[3]

Commentary:

Hiram College had a reputation as a small liberal arts school that sent a high percentage of its students to graduate school. There was a degree of "vocationalism" in its curriculum, as there is in most liberal arts schools, in the areas of teacher education, business administration and emphasis in other areas. Jagow viewed their particular modern version of liberal arts education in preparation for graduate school as the type of "specialization" that Hiram could offer effectively.

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[3] Appendix B-1, pp. 76, and 101-102.

There was no plan to enter the field of graduate education. Hiram was surrounded by a wide variety of graduate education programs at other institutions including Kent State, Case Western Reserve, Akron, and others. Many of the larger institutions were part of the Ohio state system with considerably lower tuition rates.

The Ohio state system also included a growing number of two-year community colleges, three of which were in Cleveland, only 35 miles away. Hiram's strategy of specializing in liberal arts aimed at training students for graduate schools was partly dictated by the necessity of staying out of competition for the same students who were attracted by community colleges.

Strategy #3: To maintain a rate of increase in the number of students that would allow steady rate of growth which may reach a peak of 1800-2000 students in five years. To actively recruit students on a wider regional basis from high school graduates who were interested in the type of education offered at Hiram and who were scholastically qualified.[4]

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[4] Appendix B-1, pp. 87-88, 97-99; also Appendix B-2, p. 112.

Commentary:

The emphasis within this growth strategy was on the rate of growth rather than the target figure of 1800-2000 in five years. As can be seen from Jagow's comments, his concern was that once the target was reached a type of complacency might set in and a fixation would be attached to the target. The Admissions Office had been enlarged and modernized to implement this strategy.

Strategy #4: To maintain the present strong faculty and to achieve a student/faculty ratio of approximately 15/1 to 18/1.[5]

Commentary:

The faculty at Hiram was considered one of its strongest resources. The true worth of a faculty cannot be measured, but one of the yardsticks frequently used is the number of terminal degrees held. At Hiram 45% of the faculty held doctoral degrees with others holding terminal professional degrees.

At the time of this study the student/faculty ratio was about 13/1. This strategy obviously was aimed at getting a more efficient use of the faculty in the classroom. On the surface it seemed to be in conflict with the "Task Force" recommendation of more "one to one" contact between faculty and students. Jagow felt that one way of resolving the conflict was to eliminate the paper work involved in teaching large classes and to avoid small uneconomical classes.

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[5] Appendix B-1, pp. 80, 83-84, and 88.

Strategy #5: To undertake research to a sufficient degree to attract and retain faculty, but the research was expected to contribute to the faculty member's ability as a teacher and was not to be a replacement for teaching. Hiram was committed to being a teaching instituition and would only undertake research that could be considered complimentary to that effort.[6]

Commentary:

Little additional comment is necessary concerning this strategy. It does seem to be a fair reflection of their objective. There was some research in progress, primarily in the sciences financed by NASA and NSF. The College also operated a biological station away from the campus but because of their geographic surroundings officials saw little opportunity for involvement in large scale public service projects.

Strategy #6: To provide the necessary facilities to carry on the programs of the College but only after specific needs were agreed upon. It was not the purpose of the administration to construct buildings merely because funds were available from private or government sources. Current plans were to complete the Kennedy Student Center for student social activities; to renovate two small houses for administrative offices; to construct an art building; and to build a combination classroom-administrative center to replace the inadequate facilities presently in use.[7]

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[6] Appendix B-1, pp. 99-101.

[7] Appendix B-1, pp. 85-87.

Commentary:

The classroom-administrative facility was alternately referred to as a management center and as a faculty office center. In reality it was to be used for the president's office, the trustee's meeting room, and the dean's office with a few faculty administration offices. The major point of this strategy, however, is that academic needs would dictate the type of building and other facilities required. Several times in the interview with President Jagow and in informal talks with other administrators they used the phrase, "we must be able to afford ourselves." This understanding strongly influenced their thinking concerning expansion of their plant facilities. Plans for expansion were awaiting the identification of the academic objectives currently under study by the "Task Force."

Strategy #7: To bolster the management staff in the following areas:

a. The Business Office - to maintain more effective control over expenses and to provide the necessary information to manage the institution.
b. The Development Office - to get a closer relationship with the alumni, business leaders, and other friends of the College in the region identified as the Hiram "market area."
c. The Admissions Office - to provide a pool of applicants for admission that would allow Hiram to achieve its growth objectives and maintain its academic standards.
d. The President's Office - to provide the planning and support for the president necessary to maintain positive

direction in the affairs of the College and which accentuate the academic strengths.[8]

Commentary:

These administrative organizational changes had largely been completed in the two years since Jagow took office (Exhibit VI - A3). Many of his ideas concerning long-range planning and control of the College had been waiting for the desired staff to fill organization slots. Jagow was just beginning to press for better control instruments and to develop the proper atmosphere for control. There had been very little change in the faculty beyond normal attrition and the termination of temporary appointments.

Strategy #8: To continue its loose affiliation with the Disciples of Christ Church. Hiram was not owned by the Church in any sense, nor did they have to maintain a number of seats on the Board of Trustees for the Church. A small amount of money was provided by the Disciples and a number of students were attracted because of the church relationship. In addition it was felt that one of the advantages of a small college in the future could best be demonstrated through high academic standards applied in the moral, social, ethical, and religious atmosphere of a church-related school. There was no interest in forcing students to accept any religious doctrine nor were faculty members required to be members of a particular faith.[9]

Commentary:

The strategy and Jagow's comments in Appendix B-1 seem to state the religious association adequately. Hiram and

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[8] Appendix B-1, pp. 79, 95-96.

[9] Appendix B-1, pp. 72-74.

Lynchburg are both related to the Disciples, and the degree of association is very similar as can be observed in Exhibits IV - 2 and VI - A1.

Strategy #9: To continue the existing academic programs emphasizing its strong faculty and good teaching.[10]

Commentary:

This strategy was included since it seemed to be logical for all institutions but it was also apparent that Hiram intended it to be a deliberate objective; to maintain their programs at existing stages of development, except as Strategy #1 points out. In this sense, Strategy #1 and this one seem to be companion strategies.

ANALYSIS OF THE APPLICABILITY OF THE MODEL:

Earlier in this chapter several questions were posed which were to be answered by research at all four test schools. Of these questions, the following were of particular interest at Hiram College.

(1) What effect, if any, did the rural environment at Hiram have on "planned capacity" used in the UR?

(2) Did characteristics different from Lynchburg College limit the applicability of the model?

(3) The president at Hiram had been appointed because of his reputation in administration in higher education. Did this contribute to or limit his ability to identify strategies?

(4) Was the financial data necessary for computation of the UR available in the proper form?

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[10] Appendix B-1, pp. 82, 105-106.

The capacity figure of 1800 students at Hiram College was quoted by several of the administrators and was used for planning purposes in several of their studies.[11] The actual number was not tested by the researcher but capacity was found to be constrained by dormitory space since the College was located in a rural area. Although a few students did commute from Cleveland and Warren, there was a number of state-supported schools much closer to both cities that severely limited the number of "day" students expected at Hiram.[12] President Jagow referred several times to his desire to increase class size without burdening the faculty[13] but informal conversations with other members of the staff indicated that faculty attitudes concerning class size may not be in accord; however, if the capacity estimate is accepted, then the conclusion from the UR, Exhibit VI - A5, is that excess capacity at Hiram is greater than at Lynchburg. Caution is recommended in this type of conclusion, however, since the methods of computing capacity at Lynchburg and Hiram are quite different. At Lynchburg faculty attitude concerning class size was the major constraint while at Hiram dormitory capacity was used with seemingly less attention given to the faculty attitude.

It was stated in Chapter IV that the numerical values of the UR are not as significant as its relationship to a predetermined target UR range. At Hiram there was indication of more difficulty in obtaining students than was apparent at Lynchburg.[14] Under these conditions it is important that a target UR be set which gives due consideration to the environment from which Hiram attracts students. The conservative philosophy in setting strategies at Hiram is aimed at maintaining a UR that will not require more students than are interested in their type of program. When Jagow and others said they must be able to afford themselves they seemed to imply that strategic expenditures would not be undertaken that would raise the required number of students and the UR.

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[11] Appendix B-1, pp. 87-88.

[12] Appendix B-1, pp. 75-76.

[13] Appendix B-1, p. 88.

The other characteristics at Hiram did not seem to limit the ability to install the model. The ultimate usefulness of the model, including the UR, will be determined by Hiram administrators through application to long-range planning. In reality, there was no reason to assume that institutional and organizational characteristics at Hiram would limit the model since there was considerable similarity to Lynchburg including the high proportion of income from students (Exhibit VI - A2). The Hiram work did tend to support the model's general applicability at schools with characteristics similar to Lynchburg and Hiram. It was still necessary after the Hiram work to extend the general applicability to schools with possible limiting characteristics.

As was previously stated, President Jagow had come to Hiram to provide a higher degree of financial stability. In the past Hiram had been considered one of the pioneers in progressive and innovative academic programs. There was still a strong desire to maintain this reputation but, with Jagow's arrival, this desire was constrained within the bounds of limited financial resources. Informally, various administrators had referred to the previous dynamic attitude of the faculty and staff as a contributor to the financial deficits which had occurred for several years prior to Jagow's arrival. One of his major tasks had been to eliminate the deficits and bring about financial stability, therefore, the strategies assumed a more realistic appraisal of the resources available to Hiram College.

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[14] Appendix B-1, p. 83.

The policy of requiring that any new academic program be a replacement for an existing one was a direct reaction to previous financial problems. In effect this policy was intended to limit the initiation of new programs and projects to those that could be undertaken with no additional money required from current operating funds. In terms of the UR the objective might be stated to accept only those programs or projects that did not increase the ratio beyond a desired level. The rising UR shown in Exhibit VI - A5 is primarily the result of generally rising costs of existing programs plus additional operating cost of buildings to be constructed.

The self-supporting policy for strategic expenditures tended also to set strategies for the application of resources. Only those programs or projects would be undertaken for which the financial resources were known. Some inconsistency in this policy is seen in that operating expenses of new buildings were to be paid from operating income. It can be said, however, that only the most essential projects seemed to be under consideration. President Jagow referred to a desire for a new art building, yet this was not included in their strategic expenditures since the source of financing had not been identified.

Jagow had made substantial contributions to immediate financial stability yet there was a note of difference between him and the faculty, noticeable throughout the interviews in Appendix B-1 and B-2. The proposed model requires that educational policy be the joint effort of the faculty and the top administrators. The faculty must feel that priorities set for academic programs will be honored to the limit of financial ability. The ranking they establish concerning the academic value of projects should be used by administrators in recommending to the trustees which programs and projects to be undertaken. If all projects cannot be undertaken by the trustees and administration, the faculty must have confidence that the best use is made of resources. This confidence is not likely to occur in an atmosphere of friction between the faculty and administration. The depth of the differences at Hiram could not be measured but the potential difficulty points out that the characteristic of administrative competence and attitude can bear on how effectively the model is applied.

The methods of accounting found in the test schools and described in the higher education literature were probably more uniform than methods typically found in business.[15] Because of the uniformity, the same basic procedures could be used at Hiram as at Lynchburg. The data was collected from accounting reports and from discussions with college officials. Accounting records of original entry were not used to the extent they were at Lynchburg but trial balances of the fund accounts were examined. The financial data is from the actual account balances of the institution but the classifications for the UR was done by the researcher with the assistance of the Business Manager (Exhibits VI - A4 & A5).

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[15] Many schools follow the procedures outlined in the three-volume, College and University Business Administration, referred to in Chapter I. These books, published by the American Council on Education, recommend a system of fund accounting, including account classifications, that was in general use in all four of the smaller schools of this study. In addition, Duke University was converting to a uniform system of accounting for the entire university that was intended to adhere more closely to the recommended methods.

In businesses, the lack of uniformity in accounting is partly due to the lack of uniformity in methods of producing and selling goods and services. In the smaller colleges, at least, the product (education) is similar and accounting for it can be more uniform.

It can be argued that the strategies at Hiram are mostly a reaction to past financial difficulties and that long-range planning is only concerned with the immediate future. On the other hand, the framework for strategy formulation requires that resources be evaluated realistically, that environmental constraints be carefully considered, that opportunities be assessed against potential risks, and that an organizational structure be adopted to implement the strategy. In considering these elements, threats to solvency are likely to have a profound effect, as was evident at Hiram. In this sense the strategies may reflect the views of Hiram officials as far as they are willing to project them in light of the uncertain future of private higher education. There can be no question concerning the need for a statement of academic objectives from the faculty which was about to be presented in the form of a "Task Force" report. Without this initial analysis of the direction of the academic program, concrete strategies for implementation within financial constraints cannot be articulated by the administration.

Exhibit VI - A1
Hiram College
Summary of Significant Characteristics

A Private, Non-profit College

Affiliation:

- Related to Disciples of Christ Church
- Self-Perpetuating Board of Trustees
- Assets owned in the name of the Trustees
- No required number of Trustees specified from the denomination
- No required number of faculty specified from the denomination
- Present president and other administrators not from the denomination
- Minimal financial support from the denomination

Age: 118 years (founded in 1850)

Location: In rural northeast region of Ohio - 1/3 of Ohio population is within 50 mile radius

Closest College: Large state university 18 miles from Hiram with several others including community colleges within 40 miles

Objectives: To remain a small liberal arts college with evolutionary change in academic programs

Size: (as of 6/30/67)

Students	1100
Faculty	80
Revenue (Aux. Enterprises, net)	$ 2.5 million
Assets (See Exhibit VI - A2)	$ 13.9 million
Endowment (Market)	$ 6.7 million
Plant Assets (Cost)	$ 7.0 million

Organization:

- One school (with 19 undergraduate academic departments)
- One campus plus a biological station
- No graduate program
- See Organization Chart - Exhibit VI - A3

Growth Trends: Steady growth in number of students reflecting the national trend
Little increase in faculty and facilities

Decision-Making Environment:
Unsettled, historically "faculty-oriented"
New president creating tendency toward "administrative-orientation" but with resistance

Per Cent Dormitory Students:
90% with 10% day students

Student Background:
From upper and middle 1/3 of high school classes tending toward the middle
From middle-income families
Urban Ohio predominant background with a small minority from surrounding states

Exhibit VI - A2
Hiram College
Condensed Balance Sheet
As of June 30, 1967
(In Thousands)

Assets	
Current Fund Assets	$ 944.2
Endowment & Other Investments (Market - $6,672.1)	4,988.0
Plant Assets (At Cost)	8,053.3
Total Assets	$ 13,985.5
Liabilities	
Current Liabilities	$ 751.5
Long-term Debt	2,212.7
Total Liabilities	$ 2,964.2
NEt Book Value	11,021.5
Total Liabilities & Book Value	$ 13,985.5

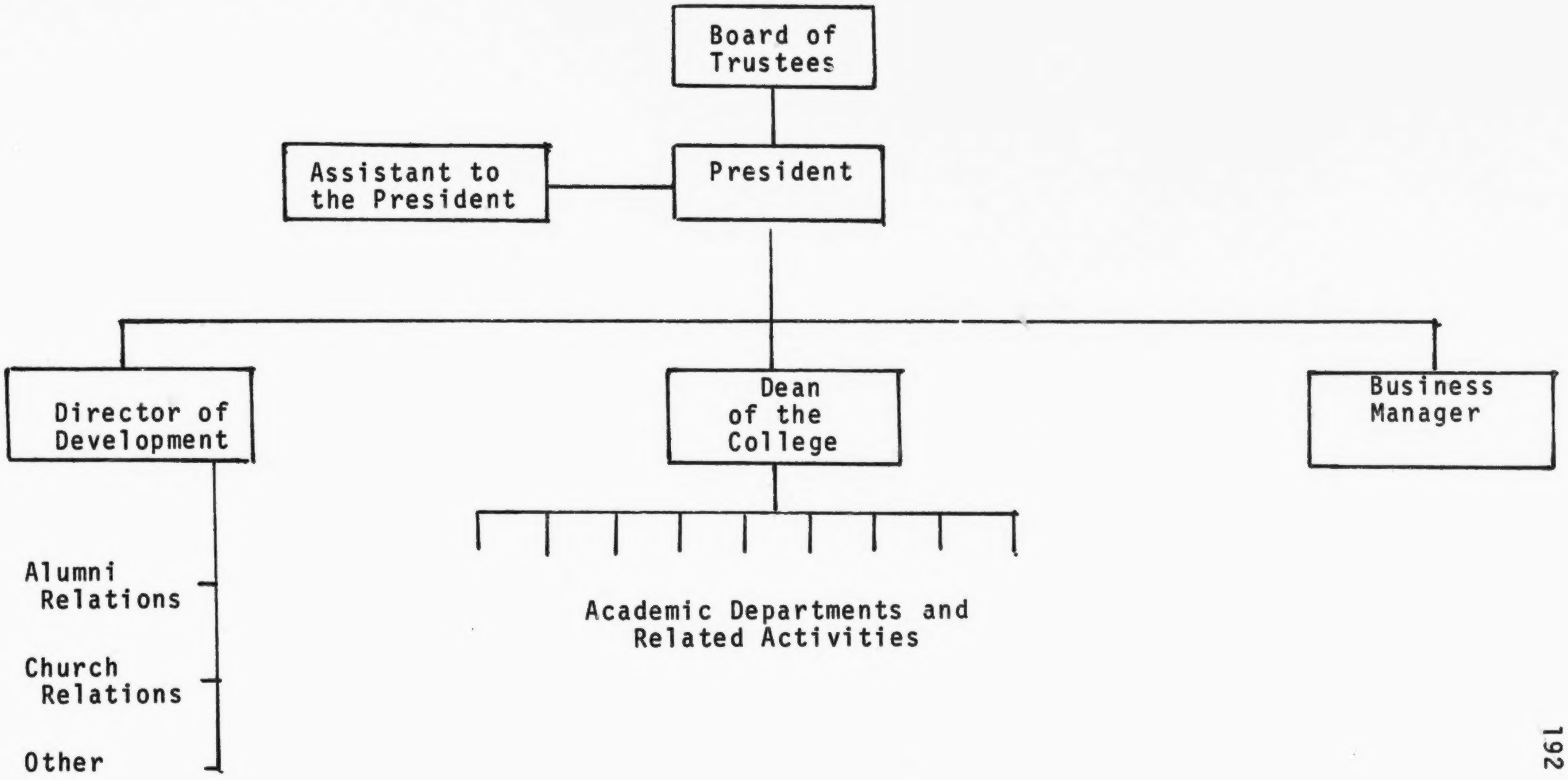
Statement of Current Fund Operations for the Year Ended June 30, 1967

Income:		
Student Tuition & Fees (75% of Total Income)	$ 1,704.7	
Endowment Income	209.3	
Gifts & Grants	173.0	
Auxiliary Enterprises (Excess of Revenue Over Expenses)	136.2	
Other	49.3	
Total Income		$ 2,272.5
Expenses:		
Instructor's Salaries	$ 866.7	
Other Instructional, Administration & Operating Expense	1,208.0	
Total Expenses		$ 2,074.7
Excess of Income Over Expenses		$ 197.8

Source: Annual Report of Hiram College, for the Year Ended June 30, 1967

EXHIBIT VI - A3

HIRAM COLLEGE - ORGANIZATION CHART


Board of Trustees
President
Assistant to the President
Director of Development
Dean of the College
Business Manager
Alumni Relations
Church Relations
Other
Academic Departments and Related Activities

SOURCE: Interviews with administrators at Hiram College

Exhibit VI - A4a

Hiram College

SCHEDULE OF STRATEGIC EXPENDITURES AND RESOURCES (CONTROL)

For the Planning Period 7/1/68 to 6/30/73

(In Thousand $)

	Strategies [a]						
	(2)	(3)	(5)	(6)	(7)	(8)	(9)
Strategic Expenditures							
Operating Expenses							
Auxiliary Enterprises				$145			$ 5,509
All Other	$95	$84	$66	596		$61	14,894
Debt Service				161			130
New Programs & Projects:							
Original Cost					$2,414 [b]		
Operating Cost					128		
Total Strategic Expenditures	$95	$84	$66	$902	$2,542	$61	$20,533
Receipts							
Change in Cash Balance							
Non-Tuition Receipts:							
Auxiliary Enterprises					$ 200		$ 5,701
Endowment Income							1,227
Gifts & Grants					1,914 [b]		2,843
Other Income							596
Loans Received					500 [b]		
Total Non-Tuition Receipts					$2,614		$10,367
Net Difference to be Paid by Student Tuition	$95	$84	$66	$902	($ 72)	$61	$10,166

[a] Strategies #1 and #4 were not determined to require the allocation of funds a fore, excluded from this schedule.

[b] This amount is for projects as follows:

1968-69	-	Student Center	$1,414
1969-70	-	Administrative-Classroom	1,000

There were no new projects or programs planned beyond 1969-70.

OL)

(9)	Total
5,509	$ 5,654
4,894	15,796
130	291
	2,414
	128
0,533	$24,283
	-0-
5,701	$ 5,901
1,227	1,227
2,843	4,757
596	596
	500
0,367	$12,981
0,166	$11,302

nds and are, there-

161

Exhibit VI - A4b

Hiram College

SCHEDULE OF STRATEGIC EXPENDITURES AND RESOURCES [(a)]

For The Year Ended June 30, 1969

(In Thousand $)

	Strategies							
	(2)	(3)	(5)	(6)	(7)	(8)	(9)	Total
Strategic Expenditures								
Operating Expenses:								
Auxiliary Enterprises				$ 26			$ 989	$1,015
All Other	$17	$15	$12	107		$11	2,506	2,668
Debt Service				32			26	58
New Programs & Projects:								
Original Cost				1,414				1,414
Operating Cost				22				22
Total Strategic Expenditures	$17	$15	$12	$1,601	- 0 -	$11	$3,521	$5,177
Receipts								
Change in Cash Balance								- 0 -
Non-Tuition Receipts:								
Auxiliary Enterprises				$ 36			$1,021	$1,057
Endowment Income							201	201
Gifts & Grants				914			462	1,376
Other Income							107	107
Loans Received				500				500
Total Non-Tuition Receipts				$1,450	- 0 -		$1,791	$3,241
Net Difference to be Paid by Student Tuition	$17	$15	$12	$ 151	- 0 -	$11	$1,730	$1,936

[(a)] In the interest of brevity, the schedule of Strategic Expenditures and Resources for each of the five years in the planning period will not be presented. This statement is presented to demonstrate the methodology and for a tie-in of the "net difference" to the computation of the UR in Exhibit VI - A5.

Exhibit VI - A5
Computation of Utilization Ratio
Hiram College
1968-73

Year	"Net Diff." (000 Omitted)	Tuition Rate (a)	SR/SC (b)	UR
1968-69 (Exhibit VI - A4b)	$ 1,936	$ 1,615	1199/1800	.67
1969-70	2,018	1,715	1177/1800	.65
1970-71	2,218	1,715	1293/1800	.72
1971-72	2,441	1,715	1423/1800	.79
1972-73	2,689	1,715	1568/1800	.87
Total (Exhibit VI-A4a)	$11,302			

(a) The tuition rate is the planned charge for the five-year period. The increase in 1969-70 will be to all students, not just the entering class as is the practice at Lynchburg College.

(b) SR/SC refers to Students Required divided by the Student Capacity.

B - STETSON UNIVERSITY

HISTORY AND PURPOSE[16]

Stetson University was founded in 1883 as DeLand Academy. It became a college in 1885, and in 1889, the name was changed to Stetson University to honor the hat manufacturer who gave both time and money. The College of Law was organized in 1900 and it is from this professional school that Stetson derives its university status. In addition to the School of Law, there is the School of Music, the School of Business Administration, and the College of Liberal Arts. Each of these three schools offers both undergraduate and masters programs.

Stetson is a private non-profit university related to the Florida Baptist Association as well as the larger Southern Baptist Convention but, unlike other Baptist schools, Stetson is not owned or operated directly by the state association (Exhibit VI-B1). The association with the Baptists was described as one of spirit more than of organization. Financial data and other characteristics can be found in Exhibits VI-B1, VI-B2, and VI-B3.

The University is located in DeLand, Florida, a rural and residential area near the center of the state. Orlando and Daytona Beach are the nearest cities. There are several state universities, private colleges, and community colleges within a forty mile radius of DeLand.

THE STRATEGIES IDENTIFIED AT STETSON UNIVERSITY:

The following list of strategies were identified in conversations with and documents furnished by Paul F. Geren,

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[16] This section was taken from the Stetson University Bulletin, 1968-69, September, 1968, pp. 5-8.

President, John E. Johns, Business Manager, H. Graves Edmundson, Jr., Comptroller, and Ted Banks, Director of Development. The list of strategies has been seen and approved by President Geren as reflecting the existing objectives and methods of operations.

Strategy #1: To grow at a modest rate which would probably be less than the growth rate of higher education in Florida generally. A maximum number, in ten years, of about 2,600 students on both campuses, DeLand and St. Petersburg, was projected, but the emphasis was on the growth rate without pre-occupation with a target figure.[17]

Commentary:

A profile of Stetson University is presented in Exhibit VI - B1 which includes data concerning size - about 2100 students at the time of this study. Approximately 300 of these students were in the Law School located in St. Petersburg, Florida. The State of Florida had a substantial system of state-supported colleges and universities, including a number of very large junior colleges and a growing number of state universities. The tuition at the state schools was well below Stetson's, a situation that was also found in Ohio and Virginia. In Florida, however, the state had recently enacted a "Regent's Scholarship Program" which would pay up to $1,200 to any graduate of an accredited Florida high school to allow him to attend any accredited Florida college or university of his choice, whether it was public or private. Officials at Stetson felt that this program would provide a stimulus to their enrollment. There was excess dormitory and classroom capacity at Stetson at the time of this study.

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[17] Appendix C-1, pp. 124-126, and Appendix C-2, p. 148.

Strategy #2: To maintain emphasis on the teaching effort by a strong faculty undertaking research when it was related to teaching and when it did not detract from the classroom performance of the faculty.[18]

Commentary:

This strategy reflects the same philosophy that was found at both Hiram and Lynchburg. Research was looked upon as a means of enriching the faculty; it was not within the limits of their resources to undertake major research projects as an institution.

Strategy #3: To strengthen ties with the Southern Baptist Convention and particularly the Florida Baptist Association.[19]

Schools operated by the Southern Baptist Convention are generally owned by the Convention or by the particular state association in which they are located. Ownership takes a literal form in that the assets are held by the state association which also typically appoints the trustees. Generally, the president and other high-ranking officials are required to be Baptists; faculty from the Baptist denomination are at least given preference. Moreover, the denomination standards are usually the accepted patterns of behavior, and significant financial support is derived from the convention. This rigid type of church association was not the case at Stetson. The University owned its assets in its own name; trustees were self-perpetuating but 3/4 of them and the president were required to be Baptist; substantial contributions to the University were received from the state association; but other administrators and faculty members were not required to be Baptist.[20]

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[18] Appendix C-1, p. 142.

[19] Appendix C-1, pp. 121-124.

Even though the literal interpretation of ownership did not apply to Stetson, there was considerable evidence that the ties with the denomination were quite close and probably would become closer. In the recent past, differences had developed between Stetson and the Florida Baptist Association over the University's independent status. The state association also felt that certain liberal tendencies at the university were not compatible with Baptist doctrine. Support began to diminish, and one of President Geren's stated objectives was to reverse this trend.

> I can say that much of the problem and opportunity of being an administrator at Stetson resides in the cultivation of the Baptist constituency. What they want, of course, is more direct control, not having what the other state conventions have in terms of ownership. They do want something. I hope that they can be persuaded that it doesn't have to lie in a change in the constitution or a change in the charter but instead in a declaration that Stetson University is a servant of the Baptists of Florida.[21]

Strategy #4: To serve as the avant garde among the Baptist constituency in working with other denominations and in applying the "Christian Ethic" to social problems of the day. The intent was to involve the students in social problems that cut across all aspects of their life, not just their religious life, and to show how Christian values could be used to resolve social issues.[22]

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[20] Appendix C-1, p. 122.

[21] Appendix C-1, p. 123.

Commentary:

While this strategy has great virtue and reflects the ecumenical movement today, there was little financial implication in it other than the possibility that it could cause displeasure within the denomination and stand in the way of Strategy #3.

Strategy #5: To offer new academic programs only when they have identifiable educational value and when there was reasonable assurance that they would be self-supporting.[23] The deficit of approximately $85,000 in 1967-68 made it essential that no additional expenditures be made from the "Current Fund Budget." Examples of programs that met this requirement and that were being contemplated are:

a. A cluster of private colleges (preferably church-related) centered around Stetson which would allow the separate schools to draw upon each other and allow specialization of offering. (The Episcopal Church had agreed to join the cluster.)[24]

b. An International College (included in the cluster of colleges) in which students in various "majors" would be exposed to the problems of an international nature in their chosen field or career. The purpose was not to train students for foreign service with the government but to give international "flavor" to students who may wish to practice their profession overseas. In addition, it was expected that foreign nationals would come to Stetson for a year of study.[25]

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[22] Appendix C-1, pp. 124 and 134.

[23] Appendix C-1, p. 141, also Appendix C-2, pp. 149-150.

[24] Appendix C-1, pp. 114-117.

c. A School of Urban Sciences (also in the cluster) which would take Stetson into the urban centers and allow the application of the "Christian Ethic" to social problems. This program would be undertaken in conjunction with other private schools who felt as Stetson did that private colleges could make a contribution to social problems by applying the "Christian Ethic" which cannot be duplicated by state universities.[26]

d. Graduate programs in business and education in Brevard County (Cape Kennedy) with the financial support for the Graduate Center coming from the community. This development had been started in the Fall, 1968, after discussion and agreement with officials who had substantial interest in private college education for their employees.[27]

Commentary:

Stetson, like Hiram, had experienced serious deficits in the recent past, and the trustees and administration had reacted strongly to correct the situation. Even though the

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[25] Appendix C-1, pp. 116-117.

[26] Appendix C-1, pp. 132-134.

[27] Appendix C-1, p. 146.

Statement of Operations for the year ended May 31, 1967, in Exhibit VI-B2 shows Excess of Income over Expenses of $110,000, the year ending May 31, 1968 was expected to show a deficit of about $85,000. The measures adopted to eliminate the deficit involved holding operating costs at the same level as the previous year and attempting to increase income from outside sources. Special development campaigns were planned for this purpose. The four projects listed in this strategy were to be undertaken only if it could be reasonably expected that they would ultimately be self-supporting.

Since it was not the purpose of this research to judge the merits of strategies adopted by a college or university, no comment will be made about the feasibility of the four programs. The doubts raised by Stetson administrators involved the cluster of colleges and the School of Urban Sciences.

Strategy #6: To emphasize the development function with the objective of promoting Stetson with businesses and foundations and to broaden the area from which they attract students. The objective included increasing the endowment funds by about $12 million in ten years.

Commentary:

This strategy had been partially initiated at the time of this study in that the Director of Development had just recently been hired. He was currently attempting to develop a program for the accomplishment of this strategy.

Strategy #7: To reorganize the functions of the University under three vice-presidents; Academic Affairs, Business Affairs, and Development. The existing four Schools; Liberal

Arts, Music, Business, and Law would report to the Academic Vice-President. The purpose of the reorganization was to identify responsibility and to give greater unity to the University.

Commentary:

This strategy also had been initiated at the time of this research. President Geren had been in his position only about one year, coming to Stetson from a position of Executive Vice-President at Baylor University. He had implemented many of the organizational changes since his arrival. The Organization Chart shown in Exhibit VI-B3 reflects the new organization.

Strategy #8: To continue those existing programs for which there was a demand by a significant number of students and for which educational value could be identified.

Commentary:

This strategy was implicit in Stetson's efforts to balance their budget after the previous deficit year. The financial situation at Stetson corresponded to Hiram where a similar strategy was in effect.

ANALYSIS OF THE APPLICABILITY OF THE MODEL:

The general questions concerning applicability were adapted to the Stetson University work as follows:

(1) Was the model restricted in an institution which was organized into four schools located on two different campuses?

(2) Did the closer church relationship have a bearing on the applicability of the model? Did other characteristics at Stetson affect the model?

(3) The president at Stetson had been in his position for a period even shorter than President Jagow at

Hiram. This provided the opportunity to examine his relationship with the faculty to ascertain if potential conflict as new strategies were formulated could be detected, as it was at Hiram.

(4) Was the data for inputs into the model available in the proper form?

The organization of the University into four separate schools was primarily for academic purposes with the administrative functions centralized under President Geren at DeLand. This tended to minimize the effect on the model of Stetson's organizational character. Admittedly, the size of the institution was small enough to allow centralized administrative control which raised the question of whether larger size along with organizational complexity would affect the applicability of the model. In a diverse organization of the Stetson type, the model could be useful to top administrators as a guide to evaluating the financial feasibility of programs offered through separate schools just as it can be in institutions with single academic units.

A stronger church relationship was found to be a major consideration of the president and other top administrators. While there was no legal or organizational ownership by the Baptists, there was a desire at Stetson to be a part of the Baptist constituency. This desire in no way limited the applicability of the model although it did affect the substance of strategies and Baptist financial support did provide a major source of income.

Stetson's church relationship was probably stronger than any of the schools used in this study but there are schools that have even stronger ties; e.g. Catholic schools under absolute control of the church. While this type of rigid control may greatly influence some of the environmental and organizational factors in establishing strategies and may sway attitudes concerning the academic programs, it does not necessarily restrict the applicability of the model.

At Stetson, as at Hiram, it was not expected that all characteristics would significantly affect the applicability of the model. Two characteristics, the diverse organization and the church relationship, were of particular interest. In other respects, Stetson was not significantly different from Lynchburg and Hiram although a smaller portion of their income came from students (62% - Exhibit VI-B2).

When President Geren took office, a series of seminars were scheduled to provide him the opportunity to submit his plans and methods of administration to the trustees, faculty, and students. In addition, he had availed himself of the opportunities of his membership on the Faculty Senate to hold an open forum on the direction he proposed for the University. As a result of his open presentations, there seemed to be little disagreement concerning the basic purposes he proposed. There was some evidence that particular segments of his strategies were questioned from a feasibility point-of-view. For instance, some doubts were raised about the ability to create a cluster of colleges around Stetson. It is also possible that President Geren had not been in office long enough to feel the full weight of faculty resistance since his term was less than one year old.

It was evident that thought had been given to "action plans" or strategies necessary to accomplish the broad mission of the institution. Administrators at the second organizational level had been involved in articulating the strategies and their informal comments indicated a willingness to accept them. A committee concerned with long-range planning was completing its work at the time of this study.

Stetson had a history of fluctuating operating results.[28] There was a strong feeling among the trustees and older administrators that the need to operate without a deficit was an objective of high order. When the deficit occurred in the school year ended May 31, 1968, there was a strong reaction from the trustees as well as from the new president. In terms of the framework for strategy formulation, the awareness of financial resource limitations as a result of the deficit influenced the attempts to set realistic objectives.

There was considerable awareness of the environmental difficulties facing the University. The relationship with the Baptist denomination was somewhat tenuous and this tended to affect the strategies adopted. The support received by Stetson from the church (about $300,000 a year) was considerably more than the support to either Hiram or Lynchburg but was felt to be inadequate by Stetson administrators. In addition to the direct financial support, a large number of students were attracted from the denomination. Finally, there was a genuine desire to maintain the moral and social standards of the denomination and to look for ways to apply the "Christian Ethic" to social problems of the day.

The administrators seemed to understand very clearly that the environment from which Stetson attracted students was not favorable to a private institution. Florida's state system of higher education had put a college education at the finger tips of practically every high school graduate. Administrators had been quite active in promoting the state's Regent's Scholarships to allow students to attend the college of their choice, whether public or private.

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[28] Appendix C-3, p. 152.

The strategy of requiring all new programs to be self-supporting was questioned by some administrators on the grounds that certain programs which may be self-supporting in early years would result in rising costs to "current funds" in later years. In particular, the Cluster College and the School of Urban Science were questioned. Assuming these programs could be self-supporting initially, the computation of the UR (Exhibit VI-B5) indicates that there would be an increase in expenditures over non-tuition income in later years. Furthermore, certain capital expenditures to replace inadequate facilities were not expected to be fully financed and would require borrowed funds. The operating costs of the new facilities and the rising costs of the old also contributed to the rising UR through the year 1971-72. As the need for capital asset replacement tapers off the UR falls to a low value of .57 in 1975-76. The planning period was extended to eight years at Stetson to show the full effect of their financial strategies. There is an assumption in Stetson's UR that sources of non-tuition income from the accelerated development activity will substantially increase to pay for increases in program costs in later years.

The pattern of the UR at Stetson also indicates that they must attract more students than required in the years 1969-70 and 1970-71. Otherwise Stetson will not be able to accomplish the strategies intended for the years 1971-72 and 1972-73 which have UR's in excess of 1.00 (Exhibit VI-B5). The other alternative to support these latter two years would be debt financing to be repaid in later years 1973-74, 1974-75, and 1975-76 when the students required will be considerably less than the usual average enrollment.

While the self-supporting policy adopted by the trustees and administration was possibly justifiable, it was not stated in concrete terms that were understood by all of the administrators. Many questions were left unanswered by the trustees. For how long was the policy to be in effect? To what programs did it apply? Did it also apply to building projects? The plans built into the strategic expenditures indicate that not all programs and projects were to be self-supporting, at least they were not seen as self-supporting at the point at which plans were formulated. If the trustees could have had access to the UR concept, a range of values could have been given to the administration as guidance in planning the strategic expenditures and resources for the eight-year period. This would have left little doubt as to what the trustees expected.

The strategy of continuing existing programs took on particular significance at Stetson. Because certain buildings used by the existing School of Music, administrative offices, and other departments were in poor condition, it was necessary that they be replaced but the expenditures necessary to do this would not add to the program. The same operations would be conducted and the same students would be involved. In other words, just to continue their existing programs required capital expenditures in excess of $3,500,000 during the eight-year planning period. Implicit in the decision to make these expenditures was the assumption that the continuance of the programs is either unavoidable or they contribute sufficiently to the mission of the institution to justify the expenditures. The important point is that this decision should not be implicit. The need for the buildings should provide administrators an opportunity to explicitly analyze the programs to determine the extent of their contribution before the commitment is made. This type of implicit "happening" must be avoided by private schools as they struggle for financial stability.

The second and third stages of the model construction at Stetson was greatly facilitated by previous long-range planning accomplished by a special committee. Stetson had participated in 1958 in the original Ford Foundation Study of long-range planning in higher education. It was in this study that the concept of the ten-year budget was first applied.[29] During 1968 the data had been up-dated and had just been completed at the time of the researcher's visit. Because of the availability of the data, it was only necessary to reorganize the information into the form required for the classification of strategic expenditures and the computation of the UR. The ten-year budget data was used as a convenience but in reality the UR would normally be prepared from the source data itself.

The ten-year budget preparation indicated that the inputs for the model could be determined by the Stetson staff and with a minimum amount of instruction could be adapted to the requirements of the model.

The capacity at Stetson of 2400 students was administratively established for the purposes of their own ten-year long-range plan. It was not verified but it was explained to be based largely on the physical capacity of housing accommodations. Most of the student body at Stetson was in residence since DeLand is not a large urban center and accommodations in the city are scarce. The cities within commuting distance have community colleges which limit the "day" students that might wish to enroll at Stetson. As long as there is classroom space and as long as the faculty is large enough and agrees to class sizes large enough, capacity based on dormitory space is probably adequate.

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[29] Tickton, loc. cit.

Exhibit VI - B1
Stetson University
Summary of Significant Characteristics

A Private, Non-profit "Miniversity" Tending Toward A University

Affiliation: Southern Baptist Convention (within which the Florida Baptist Convention)
Self-perpetuating Board of Trustees with no limitation on term of office
Assets owned in the name of Trustees
3/4 of Board must be Baptist (not necessarily Florida Baptist)
President must also be Baptist (most other administrators were also Baptist although no specific requirement)
No required number of faculty specified from the denomination (actually about 40% were Baptist)
Substantial financial support; $300,000 (approx.) per year plus a significant number of students

Age: 85 years (founded in 1883)

Location: East Central Florida rural town; area population about 25,000

Closest College: Private and state schools within 25 miles

Objectives: To remain with existing curricula with greater involvement in social and international problems of the day

Size: (as of 6/31/67)

Students	2100
Faculty	116
Revenue (Excl. Aux. Enterprises)	$ 3.9 million
Assets	$20.3 million
Endowment (Market)	$ 4.9 million
Plant Assets (Cost)	$15.4 million

Organization:

Four schools (Liberal Arts, Music, Bus. Adm. and Law) - approx. 24 departments
Two campuses (DeLand and St. Petersburg)
Several graduate offerings
See Organization Chart, Exhibit VI - B3

Growth Trends:

Minimal in students, faculty and assets

Decision-Making Environment:

Historically "faculty-oriented" but there is evidence of change with a new administration

Per Cent of Dormitory Students:

95% with 5% day students

Student Backgrounds:

Upper and middle 1/3 of high school classes
From middle income families
From both urban and rural families of Florida and South
70% from Florida

Exhibit VI - B2
Stetson University
Condensed Balance Sheet
As of May 31, 1967
(In Thousands)

Assets		
Current Fund Assets	$ 1,039.1	
Loan & Agency Fund	1,614.3	
Endowment Fund (Market Value Approx. Same)	4,825.8	
Plant Assets	15,446.5	
Annuity Fund	481.5	
Total Assets		$ 23,407.2
Liabilities		
Current	$ 784.6	
Long-term Debt	5,548.7	
Total Liabilities		$ 6,333.3
Net Book Value		17,073.9
Total Liabilities & Net Book Value		$ 23,407.2

Statement of Operations
for the Year Ended May 31, 1967

Income:		
Tuition & Fees (62% of Total Income)	$ 2,409.0	
Gifts Received	628.4	
Endowment Income	149.7	
Auxiliary Enterprise (Excess of Income Over Expense)	256.8	
Other Income	434.2	
Total Income		$ 3,877.1
Expense:		
Instructional Expense	$ 1,709.3	
Other Administration & Operating Expense	2,057.5	
Total Expenses		3,766.8
Excess of Income Over Expenses		$ 110.3

EXHIBIT VI - B3

STETSON UNIVERSITY - ORGANIZATION CHART

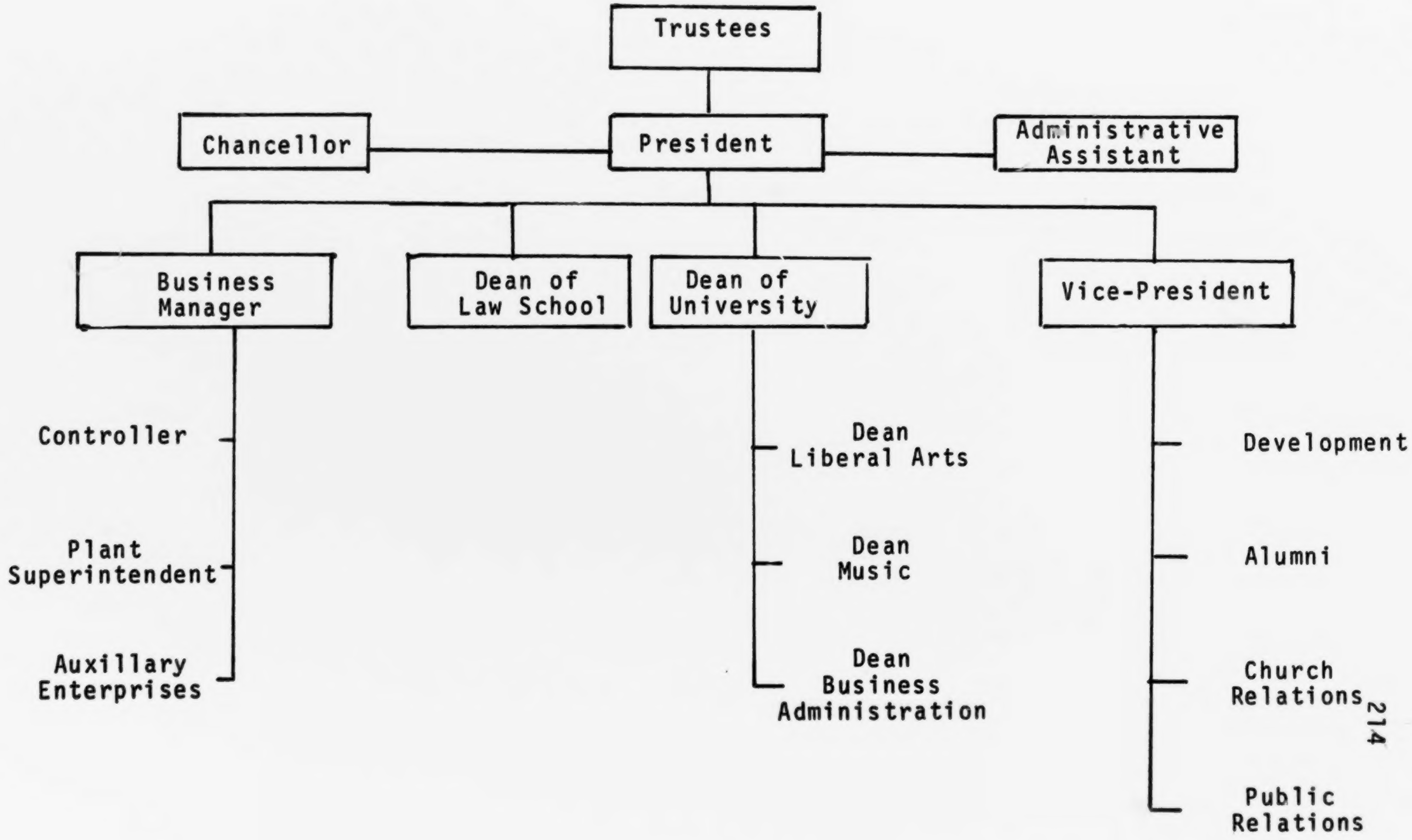
Trustees
Chancellor
President
Administrative Assistant
Business Manager
Dean of Law School
Dean of University
Vice-President
Controller
Plant Superintendent
Auxillary Enterprises
Dean Liberal Arts
Dean Music
Dean Business Administration
Development
Alumni
Church Relations
Public Relations

Exhibit VI - B4a

Stetson University

STATEMENT OF STRATEGIC EXPENDITURES AND RESOURCES

For the Planning Period 7/1/68 through 6/30/76[a]

(In Thousand $)

	Strategies[b]					
	(1)	(3)	(5)	(6)	(8)	Tot
Strategic Expenditures						
All Operating Expenses other than Auxiliary Enterprises		$272		$343	$39,924	$40,
Debt Service					896	
New Programs & Projects:						
Original Cost	$2,750		$ 200		3,950	6,
Operating Cost			2,075			2,
Total Strategic Expenditures	$2,750	$272	$2,275	$343	$44,770	$50,
Receipts						
Change in Cash Balance						-
Non-Tuition Receipts:						
AuxiliaryEnterprises (Net)[c]					$ 647	$
Endowment Income					1,740	1,
Gifts & Grants	$2,750		$ 200		15,825	18,
Other Income					5,151	5,
Loans Received					618	
Total Non-Tuition Receipts	$2,750		$ 200		$23,981	$26,
Net Difference to be Paid by Student Tuition	- 0 -	$272	$2,075	$343	$20,789	$23,

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[a] An eight-year planning period was used to allow time for strategies extended yond the usual five-year period to be fully evaluated.

[b] Strategies #2, #4, and #7 were not expected to require allocation of funds.

[c] Unlike the practice at Lynchburg and Hiram, auxiliary enterprise is shown ne of expenses. While the gross income and expenses were available in accounting records the net revenue is shown here as a convenience.

Source: Long-Range Planning data accumulated by Stetson University staff membe

Total
40,539
896
6,900
2,075
50,410
- 0 -
647
1,740
18,775
5,151
618
26,931
23,479

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mbers for internal use.

Exhibit VI - B4b

Stetson University

STATEMENT OF STRATEGIC EXPENDITURES AND RESOURCES

For the Year Ended 6/30/69[a]

(In Thousand $)

	Strategies					
	(1)	(3)	(5)	(6)	(8)	Total
Strategic Expenditures						
All Operating Expenses Other Than Auxiliary Enterprises		$25	$25	$ 30	$4,383	$4,463
Debt Service					91	91
New Programs & Projects:						
Original Cost					1,700	1,700
Operating Cost[b]						- 0 -
Total Strategic Expenditures	- 0 -	$25	$25	$ 30	$6,174	$6,254
Receipts						
Change in Cash Balance						- 0 -
Non-Tuition Receipts:						
Auxiliary Enterprise (Net)					$ 161	$ 161
Endowment Income					175	175
Gifts & Grants		$100	$25	$200	1,195	1,520
Other Income					526	526
Loans Received					618	618
Total Non-Tuition Receipts	- 0 -	$100	$25	$200	$2,675	$3,000
Net Difference to be Paid by Student Tuition	- 0 -	($ 75)	- 0 -	($170)	$3,499	$3,254

[a] This year is presented for illustration purposes. The remaining seven years' schedules are omitted in the interest of brevity.

[b] The operating costs of buildings eing replaced was felt to be sufficient offset the erating costs of new buildings.

Exhibit VI - B5

Stetson University

COMPUTATION OF UTILIZATION RATIO

For the Years Ended 6/30/69 through 6/30/76

Year	Total Strategic Expenditures	Non-Tuition Income	Net Difference	Tuition Rate Per Year	SR/SC	UR
1968-69	$ 6,254	$ 3,000	$ 3,254	$1,400	2323/2400	.97
1969-70	5,076	3,031	2,045	1,400	1461/2400	.61
1970-71	6,080	3,075	3,005	1,400	2146/2400	.89
1971-72	7,030	3,190	3,840	1,400	2743/2400	1.14
1972-73	6,240	2,795	3,445	1,400	2460/2400	1.03
1973-74	6,740	3,955	2,785	1,600	1740/2400	.73
1974-75	6,860	3,940	2,920	1,600	1825/2400	.76
1975-76	6,130	3,945	2,185	1,600	1365/2400	.57
Total (See Exhibit VI-B4a)	$50,410	$26,931	$23,479			

C - WASHINGTON AND LEE UNIVERSITY

HISTORY AND PURPOSE[30]

Washington and Lee University was founded in 1749 as Augusta Academy. At various times in its history the institution has been renamed Liberty Hall, Liberty Hall Academy, Washington Academy, Washington College, and, today, Washington & Lee University. By design and as a result of its involvement in the history of this country, tradition and classical forms of education are emphasized in the student's life.

The University is located in Lexington, Virginia, remote from the major urban centers although there are several state universities and colleges as well as private institutions within a fifty mile radius. It is a well-endowed non-profit university completely independent of church association occupying a position on the college-multiversity spectrum as a university on the strength of its School of Law. The other programs of the University are in the undergraduate college and the School of Commerce and Administration. While there has been work at the doctorate level in the distant past, there is none today. The classification as a university, while acceptable, is at best tenuous and probably should be viewed in the lower limits of the university portion of the spectrum. Other characteristics are described in Exhibit VI - C1.

The major emphasis of the University is undergraduate education in the liberal arts and sciences. Even in the School of Commerce and Administration strong emphasis is placed on liberal education. Students with high records of scholastic achievement in high school or preparatory school are drawn from a wide national distribution. The faculty has been given clear charge over the curriculum, standards of admission and advancement, and student affairs.

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[30] This section was taken from the "Self-Study Report of Washington & Lee University, 1964-66," unpublished, pp. 55-63.

The University's administrative organization is described in Exhibit VI - C2. The financial statements for the school year 1967-68 are presented in Exhibit VI - C3.

STRATEGIES IDENTIFIED AT WASHINGTON & LEE UNIVERSITY:

The strategies identified at Washington & Lee University are the result of conversations with and documents furnished by Robert E. R. Huntley, President, William W. Pusey, III, Dean of the College, James W. Whitehead, Treasurer, and Frank A. Parsons, Assistant to the President for Planning and Development. The list of strategies has been seen and approved by President Huntley as reflecting the existing objectives of his administration and methods of operations. He had very recently assumed office and, in fact, his inauguration was held after the researcher's visit.

Strategy #1: The primary goal was to obtain and retain a strong all male faculty dedicated to teaching undergraduate young men. W. & L. saw itself as a national institution dedicated to teaching as opposed to research. This is not to say that research for the purpose of faculty development was not encouraged; rather it implied that the institution would not actively seek contract research for government, business, or foundations, as done in larger universities. They would attempt to employ faculty members who were

> committed to undergraduate teaching as a professional end in itself and not a stepping-stone to graduate teaching or to research positions.

The following excerpts from the University's "Self-Study Report of 1964-66" were supported by comments with officials at the school.

> The educational emphasis of the institution has been primarily on undergraduate preparation in the liberal arts and sciences, although at various times in its history there have been other emphases.
>
> The faculty of the University is distinctive in its scholarly qualifications and teaching effectiveness.
>
> The University's first regard is for a professor's ability as a teacher, but it also expects him to be active and inquiring in his scholarship and professional self-development.
>
> A significant majority of professors hold the Ph. D. or equivalent degree.[31]

This philosophy was discussed by both Dean Pusey and President Huntley. Huntley recognized these institutional values in assessing the strategies for his administration.

Strategy #2: In order to retain and stimulate the faculty identified in #1, a further strategy had been developed which required a student body that was intellectually curious enough to challenge and carry on a dialogue with them.

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[31] Unpublished material furnished by Washington & Lee University, "Excerpts from Washington & Lee University's Self-Study Report of 1964-66," pp. 1-3.

Commentary:

This strategy was emphasized in the characteristics of W. & L. previously mentioned. Admission standards were selective in that only about 500 freshmen were admitted from about 1500 applicants each year. The high standard, in addition to the small size of the University, provided ample opportunities for student-faculty dialogue.

Strategy #3: To provide equipment, time, and money for independent faculty research when it was aimed at maintaining professional competence and at a worthwhile goal in the eyes of faculty colleagues. In conjunction with this strategy, the University also provided funded leaves-of-absence for faculty members to pursue projects that were worthwhile and in the interest of his professional development.[32]

Commentary:

This strategy is implied in the first strategy and a number of programs, including sabattical leaves, were referred to by various officials. The Business Office also seemed dedicated to the objectives outlined for faculty competence as suggested by the Business Manager.

Strategy #4: Except for the long-established Law School, the University planned to restrict its efforts to teaching at the undergraduate level and graduate work would be undertaken only if it was demonstrated that it would strengthen the undergraduate program.[33]

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[32] Appendix D-2, p. 169.

[33] Appendix D-1, p. 166.

Commentary:

This strategy again is reflected in the characteristics of the university previously outlined. The restrictive nature of the strategy of President Huntley's administration may be an outgrowth of his previous experience as part of the W. & L. faculty. He seems to have brought into his office a belief that the program presently offered by W. & L. was accomplishing the desired objective and only evolutionary changes were anticipated. This belief was shared by all officials interviewed.

Strategy #5: To increase the enrollment, and the resources necessary to sustain it, by approximately 2% each year until a maximum of 2000 students was reached in 10-12 years. The strategy concerning student body was further amplified in that it was planned to remain small enough not to preclude faculty-student interchange outside the course structure and to allow inter-disciplinary contact among faculty members. A student/faculty ratio of no more than 12 to 1 was believed acceptable. Any growth should be attained with no dilution in the quality of liberal arts education currently manifest at W&L.

Commentary:

This strategy was referred to by all officials interviewed and there seemed to be total agreement. The maximum number of students was referred to in the "Self-Study Report" but emphasis was to be on a rate of annual growth, rather than the maximum attainable size. This same concept was expressed by President Jagow at Hiram and officials at Stetson.

Strategy #6: Resources to finance the future operation of W. & L. were expected to come from:

a. an increased endowment fund so that no more than 50% of annual operating costs would be paid by student tuition charges. It was felt by President Huntley that there should be a $1 increase in the endowment funds for every $1 increase in plant and facilities.

b. a closer relationship with alumni and interested friends of the University for financial support to the University's annual operating expenditures.

c. private and federal sources only when these sources were willing to contribute to needs identified by W. & L. It was not the purpose to determine what types of projects could be financed and then commit W. & L. to them. Huntley expressed the opinion that programs at W. & L. should be a cause for funding by outsiders, not the result of it.[34]

Commentary:

At the time of this study the endowment at W. & L. was about $25 million which was not looked upon as sufficient to support the program projected in previous strategies. Huntley commented at length on this strategy and how it was to be implemented. Unlike the other smaller institutions used in this study, W. & L. had a long history of substantial support from alumni and friends of the University, and it was this constituency that Huntley looked to for the future support necessary to maintain their quality program. It should be noted also that the objective was not for major expansion, only maintenance of existing programs, and even at this level there was uncertainty about the future financial support.

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[34] Appendix D-1, pp. 158-160.

Strategy #7: The University planned to maintain the substance of student involvement in the governance of the University and in public service projects by providing channels for the expression of student opinion in a responsible setting and by cultivating their opinions through mutual respect between the students and the faculty and administration.

Commentary:

While this represents a very pertinent strategy in contemporary student life, it had little financial implication for this study. Suffice it to say that manifestations of this strategy were evident from informal conversations with Dean Pusey and from the efforts to get student support and enthusiasm.

Strategy #8: To continue to offer the existing degrees, majors, and courses but with evolutionary change as initiated and agreed upon by the faculty.

Commentary:

This last strategy was a very significant one in the sense that W. & L. did not propose any revolutionary changes in existing programs. They expected to stay heavily committed to liberal arts and sciences and the Law School, with changes in courses occurring only after extensive study by the faculty indicated the need. Evidence of this strategy can be seen from the "Self-Study". "The curriculum, although under almost constant study and refinement, has remained remarkably stable overall."[35]

This strategy was also emphasized in the quotation from the "Self-Study" in connection with Strategy #4. In addition, President Huntley commented on this objective.

> "There is very little room left to meet the requirements of the day or year; little room left for long-range planning. We have to find some way of doing more of it. There's no doubt about that. This institution is financially healthy, that is we meet our operating expenses and we have been able to accommodate the kind of growth we want in terms of faculty size and salary and facilities. It's healthy in that sense. We are not operating in the red. We haven't dipped into endowments or expended capital gains. I hope we don't have to. But to sit down and say we would like to develop new objectives, a new program which will over the next decade cost us so much; from that point of view, there is very little operating room. We are operating right on the margin every year. The pressures are greater this year than they were last year and so on. There's less of a cushion now than there was five years ago, as far as surplus goes."[36]

ANALYSIS OF THE APPLICABILITY OF THE MODEL:

The general questions for the test schools were adapted to Washington & Lee as follows:

(1) To what extent was the applicability of the model affected by substantially larger sources of non-tuition income?

(2) Did any other noticeable characteristics at W&L limit the applicability of the model?

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[35] "Self-Study Report," op. cit., p. 2.

[36] Appendix D-1, p. 160.

(3) What were the considerations in "planned capacity" at a school in which faculty attitude concerning class size was a strong determinant and where there was only minimal on-campus housing facilities?

(4) Could staff members, unfamiliar with the concepts of the model, be instructed sufficiently to make necessary classifications?

The greater sources of non-tuition income along with a stable program tended to relieve the pressure for higher tuition and for more students, at least in comparison with Hiram, Stetson, and Lynchburg. As long as the sources of outside revenue are sufficient and as long as no major changes in objectives are anticipated, the need for the UR, or for any other quantitative measure, is reduced. However, one of the concerns at W&L was whether the outside source of income would continue.[37] In addition, there had been a decline in the pool of applicants for admission to the University. The information gained from the UR by the administrators as they observed the uncertainties in these two trends could have been valuable even though financial resources were ample at that time.

In effect, W&L had been able to offset rising costs with sufficient non-tuition income so that student tuition was only required to pay 45-50% of the total operating costs (Exhibit VI - C3). It was their purpose to try to increase non-tuition income in the future to continue the proportion of tuition income at 50% or less. By increasing non-tuition income and maintaining a relatively stable academic program, W&L expected to keep tuition rate increases to a minimum. In substance, the W&L experience indicated that expectations concerning non-tuition income and operating costs will affect the emphasis placed upon the UR. If a school has expectations that non-tuition income will increase faster than costs, the pressure for more students or higher tuition rates will be minimized and interest in a quantitative measure such as the UR may be difficult to obtain. However, this condition is contradictory to financial conditions in private higher education referred to earlier in this study. For most private institutions the pressure on tuition income can be expected to continue and to increase.

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[37] Appendix D-1, p. 168.

Reference has been made to the stability of the W&L academic program objectives. This, too, tends to reduce the applicability of the model which places emphasis on the financial effects of changes in strategies. If a college or university, such as W&L, anticipates few incremental strategies, the need for the model is greatly reduced. The problems for an institution in this type of environment is two-fold. First, they must be certain that evolutionary change in the program will allow them to keep pace with the changing demand for education. And second, they must assure themselves that the rising costs of even the existing program can be covered by existing sources of income. The analysis called for in the first stage of the model would be helpful in approaching the first problem and the UR could be used to provide the necessary assurance in the second situation; however, little new information would be made available through use of the UR. This is not too different from a division of a large business in which there is a stable investment. For this division the rate of profit on sales plus the trend in sales may be just as informative as a rate of return on investment. Better information may be available to both the stable investment division and the stable private college by evaluating performance by more appropriate means. Other characteristics of W & L did not seem to limit the applicability of the model.

Given the stable program and non-tuition income increasing at least at the same pace as operating costs, the numerical values of the UR could tend to be lower than was evident at Hiram, Stetson, and Lynchburg. This, of course, depends on the value assigned to "planned capacity", the denominator of the UR. However, the concept of capacity was defined in such a way at W&L as to make the numerical values of the UR reasonably close to those at the other schools. Capacity was generally constrained by the size of the faculty and by the philosophy of small classes with as much personal contact between faculty and students as possible. Dormitory space was not a constraint since traditionally students had lived in the town of Lexington in fraternity houses or in rented space. There was some thought being given to future dormitory space but this was not in the planning stage.

The methods used at Washington & Lee University to collect inputs for the model were designed to utilize University personnel as much as possible. This approach was necessary due to some reluctance on the part of officials to open their detailed records to an outsider. It also offered an opportunity to determine the extent to which an institution's staff could develop the data for the classification of strategic expenditures and the computation of the UR.

Detailed instructions in the mechanics of collecting the required data were given to the designated individual for the assignment of costs to strategies. The work done by the W&L staff was verified by discussions concerning the reasonableness of the data and by comparison with figures in past financial statements. The computation of the UR was made by the researcher using the data supplied by the W & L staff.

The only significant difficulty encountered at W & L was in determining which strategic expenditures were incremental. For instance, the amount assigned to strategy #1 (Exhibit VI - C4) is the amount of the undergraduate instructional cost that would terminate if, for some extraordinary reason, W & L discontinued undergraduate education. The intention of the model is that strategic expenditures should be incremental to strategy changes during the planning period, not incremental under the most radical conditions as interpreted by the W & L staff.

This difficulty did not result from a lack of understanding of the incremental nature of strategic expenditures so much as a lack of incremental strategies at W & L. To illustrate, consider the following strategies;

#1 - "...a strong all male faculty dedicated to teaching undergraduate young men."

#4 - "...to restrict its effort to teaching at the undergraduate level and graduate work would be undertaken only if it...strengthen the undergraduate program."

#8 - "To continue to offer the existing degrees, majors,and courses..."

All of these strategies are shadings of an overriding purpose of continuing to emphasize the traditional type of programs that had historically been offered at W & L. In reality, there was little inclination toward major changes and, consequently, there was little evidence of incremental strategies. The list of strategies is an attempt to refine their basic traditional objective when probably the only change in direction would be evolutionary adjustments to courses. If the intended definition of incremental strategic expenditures had been used, most of the expenditures would probably have been assigned to the last strategy of continuing the existing program.

Having made the assumption concerning the incremental nature of their strategies, the classification of strategic expenditures was made by W & L personnel without additional difficulty. The process of classification makes use of the same information necessary for the usual responsibility centers, which tends to facilitate the mechanical aspects of identifying strategic expenditures. Unlike Stetson, W & L had engaged in only minimal long-range planning prior to this study. Probably some of the estimates of revenue are rough for this reason, but it is reasonable to assume that, with adequate instruction, the application of the model could be refined to a useful planning instrument.

The rising pattern in the UR at W & L provides an interesting contrast to that of Stetson. While Stetson showed a rising UR to a value in excess of 1.00 and then falling to below its current value, W & L shows a steadily rising UR, which is generally what is expected in view of the steadily rising costs in higher education. The concern at W & L for the long-term need for non-tuition income is born out by this pattern.

Exhibit VI - C1
Washington & Lee University
Summary of Significant Characteristics

A Private, Non-profit "Miniversity"

Affiliation: None

Age: 219 years (founded in 1749)

Location: In mid-Atlantic small town, little industry; no adjacent large cities

Closest College; Within 50 mile radius - a large state university and other private schools

Objectives: To remain with liberal arts undergraduate curriculum and Law School

Size: (as of 6/30/67)

Students	1300-1400
Faculty	135
Revenue (Excl. Aux. Enterprises)	$ 3.9 million
Assets	$32.9 million
Endowment (Market)	$20.5 million
Plant Assets (Cost)	$12.1 million

Organization: Three schools (with 26 academic departments)
One campus
Law School only graduate program
See Organization Chart VI - C2

Growth Trend: 2% per year growth in student size expected
Selective replacement of older buildings but no additional investment other than replacement
Endowment expected to be increased by an amount equal to increase in Plant Assets

Decision-Making Environment:
Faculty is strong, almost solely responsible for the academic program
Faculty also influential in admission, faculty additions, design of buildings, and other administrative affairs

Per Cent Dormitory Students:
45% with 50-55% off-campus residential and perhaps 2% day students

Student Background:
From top 10-20% of high school and preparatory school classes
From upper income families predominately, significant number of "professional" parents
Urban with a wide national distribution; minority from Virginia

Exhibit VI-C2

WASHINGTON AND LEE UNIVERSITY - ORGANIZATION CHART

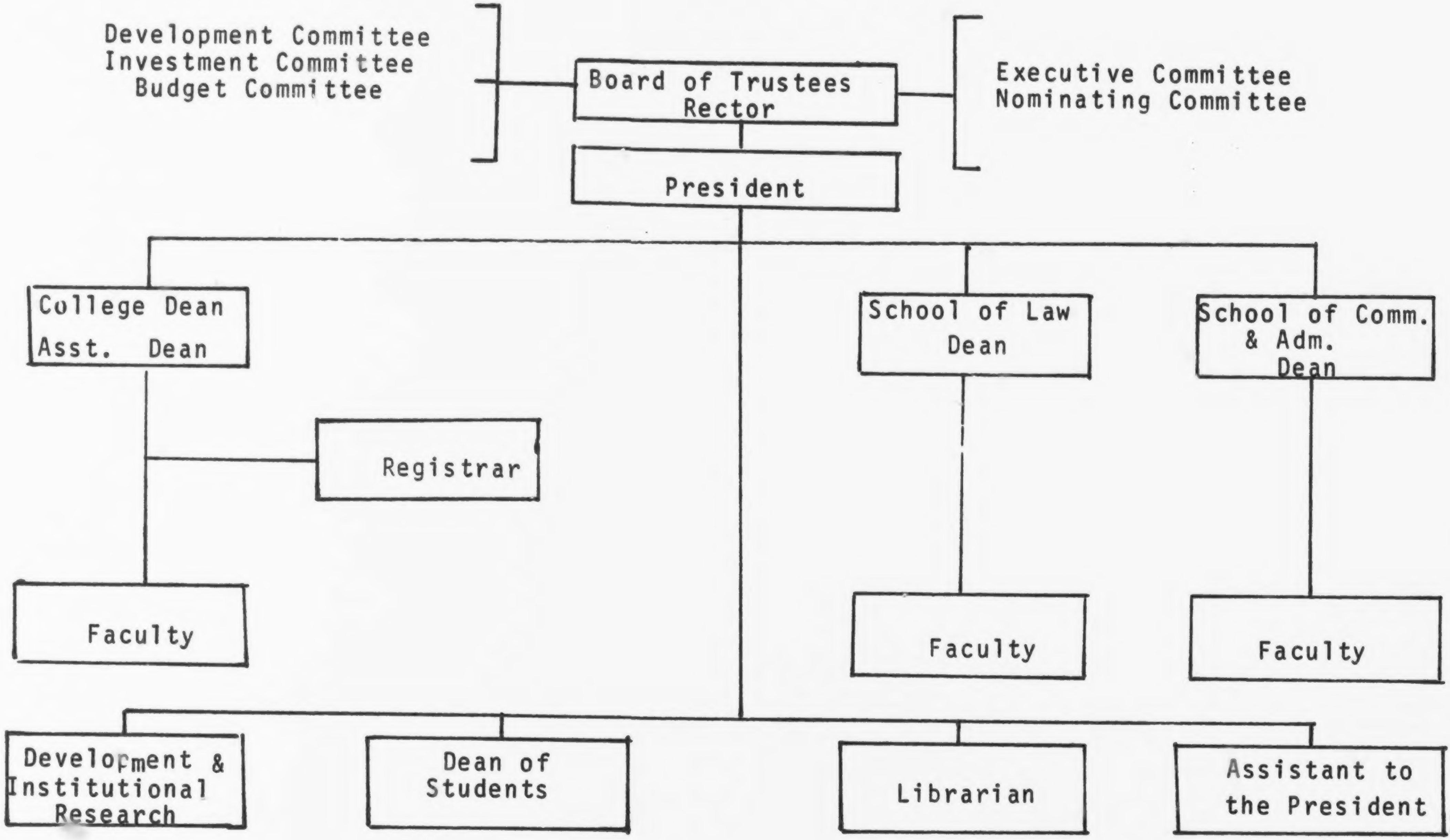
Development Committee
Investment Committee
Budget Committee
Board of Trustees
Rector
Executive Committee
Nominating Committee
President
College Dean
Asst. Dean
Registrar
Faculty
School of Law
Dean
Faculty
School of Comm.
& Adm.
Dean
Faculty
Development &
Institutional
Research
Dean of
Students
Librarian
Assistant to
the President

Exhibit VI - C3
Washington & Lee University
Condensed Balance Sheet
As of June 30, 1967
(In Thousands)

Assets		
Current Fund	$ 1,556.3	
Designated & Student Aid Funds	1,479.4	
Endowment Fund ($20,532.4 - Market)	12,943.4	
Plant Assets	9,174.2	
Total Assets		$ 25,153.3
Liabilities		
Total Liabilities (Approx.)		$ 1,000.0
Net Book Value		
Total Fund Balance (Net Book Value)		$ 24,153.3
Total Liabilities & Net Book Value		$ 25,153.3

Statement of Operations
for the Year Ended June 30, 1967
(In Thousands)

Income:		
Tuition & Fees (47% of Total Income)	$ 1,834.8	
Endowment	794.9	
Designated Income	159.8	
Gifts & Grants	637.4	
Aux. Enterprises (Total Receipts)	426.4	
Other Income	51.3	
Total Income		$ 3,904.6
Expense:		
Instructional Salaries & Expense	$ 1,659.3	
Other Administrative & Operating Expense	1,891.4	
Total Expense		$ 3,550.7
Excess of Income Over Expense		$ 343.9

Exhibit VI - C4a

Washington and Lee University

SCHEDULE OF STRATEGIC EXPENDITURES AND RESOURCES[a]

For the Planning Period 7/1/68 - 6/30/73

	Strategies[b]							
	(1)	(2)	(3)	(4)	(5)	(6)	(8)	Total
Strategic Expenditures								
Operating Expenses Other Than Auxiliary Enterprises	$5,458	$2,798	$1,008	$4,106	$ 923	$1,198	$10,383	$25,874
Debt Service					222			222
New Programs & Projects:								
Original Cost				4,500	4,750		3,600	12,850
Operating Cost					130			130
Total Strategic Expenditures	$5,458	$2,798	$1,008	$8,606	$6,025	$1,198	$13,983	$39,076
Receipts								
Change in Cash Balance								- 0 -
Non-Tuition Income:								
Auxiliary Enterprises (Net)[c]							$ 1,064	$ 1,064
Endowment Income							5,755	5,755
Gifts & Grants				$4,500	$3,000		6,842	14,342
Other Income							997	997
Loans Received					1,750			1,750
Total Receipts				$4,500	$4,750		$14,658	$23,908
Net Difference to be Paid by Student Tuition	$5,458	$2,798	$1,008	$4,106	$1,275	$1,198	($ 675)	$15,168

[a] A five-year planning period was used so that all new projects under consideration would be included.

[b] Strategy #7 was not believed to require allocation of funds.

[c] Auxiliary enterprise income is the excess of revenue over expenses.

Exhibit VI - C4b

Washington and Lee University

SCHEDULE OF STRATEGIC EXPENDITURES AND RESOURCES

For the Year Ending June 30, 1969[a]

(In Thousand $)

	Strategies							
	(1)	(2)	(3)	(4)	(5)	(6)	(8)	Total
Strategic Expenditures								
Operating Expenses Other Than Auxiliary Enterprises	$872	$458	$165	$672	$151	$196	$1,724	$4,238
Debt Service								- 0 -
New Programs & Projects:								
Original Cost								- 0 -
Operating Cost								- 0 -
Total Strategic Expenditures	$872	$458	$165	$672	$151	$196	$1,724	$4,238
Receipts								
Change in Cash Balance								- 0 -
Non-Tuition Income								
Auxiliary Enterprises (Net)							$ 161	$ 161
Endowment Income							1,015	1,015
Gifts & Grants							674	674
Other Income							30	30
Loans Received								- 0 -
Total Receipts							$1,880	$1,880
Net Difference to be Paid by Student Tuition	$872	$458	$165	$672	$151	$196	($ 156)	$2,358

[a] Only one year's schedule is presented in the interest of brevity, to illustrate the techniques in preparing each annual plan.

Exhibit VI - C5

Washington and Lee University

COMPUTATION OF THE UTILIZATION RATIO

For the Planning Period 7/1/68 through 6/30/73

Year	Strategic Expenditures (000 omitted)	Non-Tuition Income (000 omitted)	Net Difference (000 omitted)	Average Tuition Rate	SR/SC	UR
1968-69	$ 4,238	$ 1,880	$2,358	$1,600	1473/2000	.736
1969-70	4,662	1,963	2,699	1,700	1588/2000	.794
1970-71	6,878	3,848	3,030	1,825	1660/2000	.830
1971-72	10,792	7,435	3,357	1,950	1721/2000	.860
1972-73	12,506	8,782	3,724	2,025	1839/2000	.920
Total	$39,076	$23,908	$15,168			

D - DUKE UNIVERSITY

HISTORY AND PURPOSE[38]

Duke University is a nationally recognized university located in Durham, North Carolina. It was founded in 1839 as Union Institute and, twelve years later, reorganized and renamed Trinity College. It was moved to Durham from Randolph County in 1892. In 1924, upon the receipt of a major gift, the name was changed to Duke University.

Duke is a university in the complete sense of offering higher education at all levels in addition to undertaking major research programs. It is related to the United Methodist Church and receives some financial support from that group. Its purpose is to offer all types of higher education to meet the changing demands of society.

Additional information about the University may be found in the following exhibits:

Exhibit VI - D1 - Characteristics of the University
Exhibit VI - D2 - Chart of the Administrative Organization
Exhibit VI - D3 - Financial Statement for the Year 1965-66

ANALYSIS OF ORGANIZATION AND PLANNING PROCESS:

As has been previously stated, the work at Duke University was not intended to be as extensive as at the other schools. The research was to test only the effects of larger size and more complex organizational relationships on the methodology proposed in this study. In particular it was felt that the range of size of the other schools participating in this study was not large enough to provide a good comparison of private schools' administration of strategic expenditures with industry's methods of managing capital expenditures.

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[38] This section was taken from the Bulletin of Duke University, General Catalogue, 1967, pp. v, vi.

Strategies were not identified at Duke as was done at other schools. It was apparent that if it were done, three clearly separate functional areas would have strategies only remotely related to each other. These three areas included teaching, and even this might be viewed as composed of the undergraduate and the graduate programs, the hospital, and the university research programs.[39] The similarity of these functions with Perkin's three purposes of education referred to in Chapter II can readily be seen.

To articulate a list of strategies at Duke would require the efforts of one group of administrators for the University and another group for the Hospital. According to Dean Frederick Joerg, it was doubtful that any one individual at Duke other than the President could speak for both.[40] In addition, there were faculty members of the University as well as the Hospital involved only in research and who did no teaching. In spite of a relatively straight-forward Organization Chart (Exhibit VI - D2), the realities of the situation at Duke were quite diverse with considerable autonomy at the Provost and Vice-Provost positions.

It will be noted from Exhibit VI - D3 that $13.2 million in income was derived from research in the year ended June 30, 1966. This was for both the University and the Hospital with no means of separation readily available to the researcher. Probably the accounting records, just given a uniform coding system for the entire University, could have been used by members of the Duke staff to make this separation.

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[39] Appendix E, pp. 173-175.

[40] Appendix E, p. 180.

The substantially greater resources at Duke allowed them to adopt objectives in teaching, research, and public service. This was not the case at any of the smaller schools used in this study. Any statement of strategies for Duke would have to reflect the expanded horizon open to them because of their size.

Without identifying strategies it was not possible to accumulate strategic expenditures at Duke. Again this may have been possible internally for Duke personnel but it is doubtful that strategic expenditures for the University would have had much relevance for the Hospital where it may even have been possible to determine them, but this would be of little value in the next step of calculating the UR. The UR is a ratio of "students required" to "students at capacity", neither of which have relevance in a hospital. At best, application of the UR should be restricted to the University and other measures developed to analyze the hospital expenditures.

The question remains, however, as to whether the UR could be applied to the University exclusive of the Hospital. Assuming it was possible to get clear lines of demarcation for income and expenses between the University and the Hospital, then, theoretically, it would be possible to apply the UR to the University only. This type of separation requires an allocation of expenses for shared resources and services that is not customary in higher education, although not impossible as demonstrated by the separation of divisions in large multi-division companies such as Dupont, General Electric, and General Motors. While it would require a more elaborate accounting system, which Duke was in the process of developing, the separation would make the application of the UR possible.

Even with a clean separation of accounting systems, the question still remains as to whether the UR would be useful to an institution with large sources of outside income as Duke obtains. As seen in Exhibit VI-D3, only 14% of the Universities income is derived from Student Tuition and Fees. In view of this, Duke's financial stability is less reliant upon income from students than was the case at the smaller schools participating in this study.

Table VI-1

Tuition Income as a Per Cent of Total Income
For the Participating Schools

Lynchburg College	75%
Hiram College	75%
Stetson University	62%
Washington & Lee University	47%
Duke University	14%

At Duke there was less of a tendency to maintain the stability in the educational program than was observed at Washington & Lee University. For instance, they had recently instituted a major in Computer Science, a Graduate School of Business Administration had been approved, and the undergraduate curriculum had been substantially revised. To assure that the additional costs from this type of curriculum change does not exceed sources of income requires constant scrutiny that could be obtained from a measure such as the UR.

The importance of tuition income to the teaching function is overshadowed in Exhibit VI-D3 by the inclusion of income and expenses of the research programs and the Hospital. In order to see the significance of tuition to the teaching effort, research and hospital income and expenses are deducted in the following table.

Table VI-2
Duke University
Income & Expense of the Teaching Function

Total Income, per Exhibit VI-D3		$ 56,917,370
Less:		
Research Income	$ 13,256,801	
Hospital Income	9,432,331	22,689,132
Approximate Income applicable to the Teaching Function		$ 34,228,238
Total Expenses, per Exhibit VI-D3		$ 57,016,127
Less:		
Research Expenses	$ 12,727,696	
Hospital Expenses	9,605,779	
		$ 22,333,475
Approximate Expenses applicable to the Teaching Function		$ 34,682,652
Excess of Teaching Expenses over Teaching Revenue		($ 454,414)

The distinction between the three types of income and expenses in Table VI-2 is only approximate since many of the expenses are allocations based on arbitrary judgments about the use of facilities and faculty time. In addition, some portion of the endowment income may also apply to the Hospital. Further, various appropriations transferred from one fund to another cannot be totally identified from reports furnished by the University. Subject to these approximations, the $8.1 million in Tuition & Fees represents about 24% of the adjusted income for the teaching function.

A deficit is shown for the teaching function of $454,414. In addition, the Hospital's expenses exceeded its income by $173,448. In other words, without the revenue from the research programs Duke would have required additional income of $627,862 just to break even. Research revenue in excess of research expenses reduced the potential deficit by $529,105, therefore, the total deficit for the University was only $98,757. Much of the research income at Duke is from government agencies which is subject to uncertainty in addition to the type of uncertainty inferred by Dean Joerg.[41] The teaching function deficit along with the uncertainty as to amount and timing of non-tuition income at Duke indicates some degree of pressure for higher tuition and larger numbers of students.

There is evidence that even the wealthy institutions such as Duke and W & L rely on students for the constant flow of income for their operations and, as the pressure on private education continues to mount, there will be a need for objective information concerning the trends in this flow. The UR can be used for this purpose. However, it can only be useful if the financial operations of all three functions at schools such as Duke, the hospital, research, and teaching, can be separated. If divisionalized reporting such as is found in certain multi-division corporations could be obtained, the UR could be applied to the teaching function of Duke University. However, at this stage in the development of the UR it is not recommended that it be attempted at a large diverse organization, but, rather, this phase of its application should wait until the UR has been applied in more unified organizations. There is no reason, however, why the first two stages of the proposed financial planning model cannot be applied. The broad mission(s) could be broken into viable strategies and strategic expenditures could be identified with strategies. These two steps could provide useful information to administrators but the model would remain incomplete without the third step, the computation of the UR.

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[41] Appendix E, pp. 176-177.

One further comment is necessary on the influence of size on the construction of the model. Dean Joerg rightly points out that the larger institutions have greater influence with federal authorities who dispense research contracts, grants, and loans.[42] The larger institutions are also more likely to have renowned faculty members who can attract funds in their own name and who will also attract students, particularly at the graduate level.

It is doubtful that size can be separated from organizational complexity as limiting factors, but it is safe to assume that size itself is a resource of great value in attracting other resources. Size and organizational complexity, however, create difficulties for the development of the model that have not been studied. For this reason, its application should await further research.

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[42] Appendix E, p. 176.

Exhibit VI - D1
Duke University
Summary of Significant Characteristics

A Private Non-profit University

Affiliation: United Methodist Church

Age: 129 years (founded in 1839)
Name changed to Duke University in 1924

Location: Durham, North Carolina; medium-sized city in heavy industrial region; several state & private institutions within 50 mile radius

Objective: To be a top quality, national, private university

Size: (as of October, 1968)

Students	7,500 approx.
Faculty	900 approx.
Revenue	$ 40.0 million approx.
Assets	$200.0 million approx.
Endowment	$ 65.0 million approx.
Plant Assets	$125.0 million approx.

Organization: Nine schools (in excess of 40 academic departments)
One campus (plus a marine laboratory)
Large hospital facility
Undergraduate & several professional degrees offered
See Organization Chart (Exhibit VI - D2)

Growth Trend: Selective growth in student body within the parameters set by existing high standards for admission

Decision-Making Environment:
Academic departments have strong voice in their programs, in budget matters, admissions, capital expenditures, tenure, and related matters

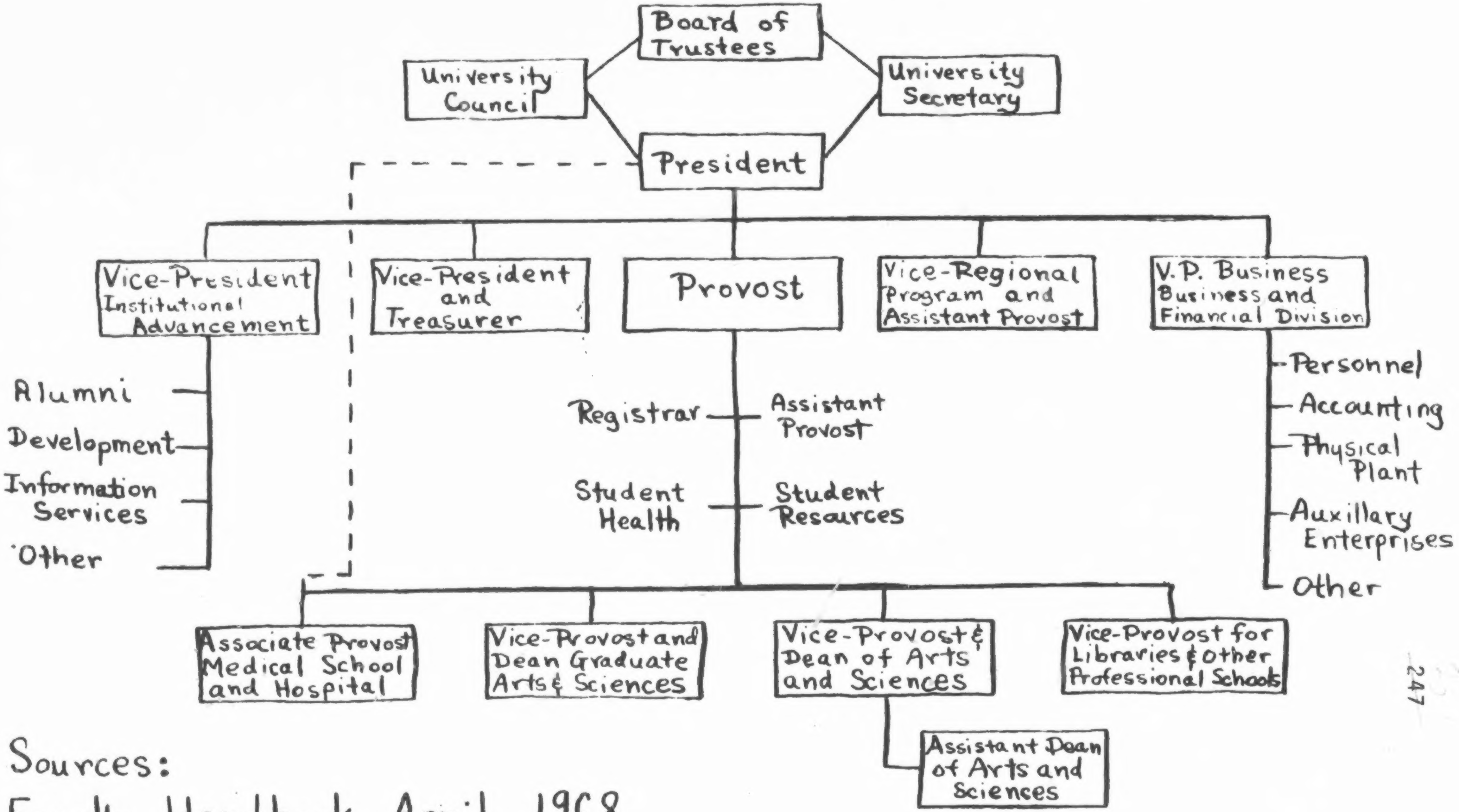
Per Cent Dormitory Students: 90%

Student Background:

- National distribution
- High scholastic achievement
- Mostly from urban areas
- From middle & upper income families primarily
- Only 20% from North Carolina

EXHIBIT VI - D2

Duke University - Organization Chart


Board of Trustees
University Council
University Secretary
President
Vice-President Institutional Advancement
Vice-President and Treasurer
Provost
Vice-Regional Program and Assistant Provost
V.P. Business Business and Financial Division
Alumni
Development
Information Services
Other
Registrar
Assistant Provost
Student Health
Student Resources
Personnel
Accounting
Physical Plant
Auxillary Enterprises
Other
Associate Provost Medical School and Hospital
Vice-Provost and Dean Graduate Arts & Sciences
Vice-Provost & Dean of Arts and Sciences
Vice-Provost for Libraries & other Professional Schools
Assistant Dean of Arts and Sciences

Sources:
Faculty Handbook. April, 1968

Exhibit VI-D3

Duke University

Condensed Financial Statements

Balance Sheet, as of June 30, 1966

Assets

Current Fund - General	$ 2,537,157	
- Restricted	9,090,044	$ 11,627,201
Student Loan Funds		2,781,495
Endowment Funds (at cost or amortized value)		60,466,173
Plant Funds		119,844,088
Total Assets		$ 194,718,957

Liabilities & Fund Balances

Current Fund Liabilities	$ 1,971,629
Plant Fund Debt	4,008,420
Total Liabilities	$ 5,980,049
Fund Balances (Net Book Value)	188,738,908
Total Liabilities and Net Book Value	$ 194,718,957

Statement of Operations(a)
For the Year Ended June 30, 1966

Income:	
Endowment	$ 7,706,044
Loyalty Funds	461,446
Gifts & Grants (Research - $13,256,801)	19,188,760
Tuition & Fees (14% of total income)	8,110,943
Duke Hospital	9,432,331
Auxiliary Enterprises	6,021,031
Other Income	5,996,815
Total Income	$56,917,370
Expenses:	
Educational & General (Includes Research $12,727,696)	$36,362,065
Duke Hospital	9,605,779
Auxiliary Enterprises	5,841,754
Other Expenses	5,206,529
Total Expenses	$57,016,127
Excess of Expenditures & Appropriations over Revenue	($ 98,757)

(a) Source: Financial Report of Duke University for the year 1965-66. Income and expense is for current funds and for transfers from designated funds for special programs and projects.

E - CONCLUSIONS FROM THE RESEARCH AT OTHER SCHOOLS

Early in this chapter five purposes for the tests at other schools were listed. The conclusions from this work will be enumerated in the same order as the original list of purposes.

1. (a) Schools with larger sources of non-tuition income may not feel the pressure for higher tuition rates or larger numbers of students to the extent indicated by the literature for most private institutions. If the schools can reasonably expect non-tuition income to keep pace with rising costs, the need for the UR may be reduced. In addition, a stable program with few incremental strategies will tend to reduce the interest in the first two stages of the financial planning model. However, if costs are expected to rise at a greater pace than non-tuition income, even the wealthy universities such as W & L and Duke may have need of a measure to help evaluate programs and projects before they are committed.

   (b) The larger size of Duke University and its complexity of organization constituted a limitation to the application of the model at this point in its development. The third stage of the model, the UR, cannot be applied to the hospital. The intermingling of resources between the research programs and the teaching function makes its implementation difficult even in these two areas.

If it were possible to obtain a clean separation of financial data, responsibility and authority, and objectives, it would be technically possible to apply the UR to functions other than the Hospital. Until this type of delineation is possible, it is not recommended that the model be applied to organizations as complex as Duke University.

(c) The concept of "planned capacity" had different interpretations at each of the four schools where it was identified--dormitory and dining hall space, classroom size, size of the faculty, and faculty attitude concerning class size. While each of these may generate different numerical values for "planned capacity", they can all be valid measures if the constraining factors are agreed upon by trustees, faculty, and administration. Even though all factors are potential constraints, at a particular institution it is probable that only one or a combination of two factors will be the real limitation on capacity.

In attempting to compare the UR between two schools it is important to know the interpretation of "planned capacity" used by each one. Strategies for expansion at a school constrained by dormitory and dining hall space will be quite different from those of an institution whose expansion is limited by size of the faculty and their attitude about class size. For a given college or university there would seem to be an optimum mix to assure that there is not an imbalance in resources. For instance, there is little value in building dormitories to house more students than the faculty is willing to teach.

2. In considering all of the characteristics of private schools earlier in this chapter it was determined that the application of the model seemed to be affected only by administrative competence and attitudes (Hiram), sources of non-tuition income (W&L), and size and organizational complexity (Duke). As discussed, these factors conceivably could restrain the applicability of the model and certainly the numerical values of the UR and the substance of strategies will be different. However, in the institutions participating in this study, only size and organizational complexity seemed to limit the model's applicability at this point in its development.

3. At the three schools where strategies were identified, all of the administrators were able to articulate them but in each case their statements were more general in nature than was true at Lynchburg College. This is largely accounted for by the researcher's greater familiarity with Lynchburg College but it was evident that each administrator had given thought to objectives, organization,

resources, and the environment in which his school operated. It was possible to convert these thoughts into strategies to which expenditures could be related and with greater familiarity the concept of strategic expenditures could be developed in sufficient detail. Where there was a need for more positive action, such as at Lynchburg and Stetson, strategies were more easily identifiable. At Washington & Lee, where there was no plan to change significantly, the major strategy was to continue their existing programs. As a result of the W & L experience, incremental strategies were found to be most meaningful for planning purposes if they required specified action within the planning period that was different from objectives pursued as an on-going routine. At all schools there was a need to develop strategies for resources as well as expenditures and in some situations this dictated when a particular strategy was to be adopted.

4. The data necessary to construct the model was developed and presented with the findings from each school. At Hiram and Stetson where the researcher made the necessary classification of expenditures and computations, the model was developed with little difficulty. At Washington and Lee the data was accumulated and classified by strategic expenditures by staff personnel without direct verification

by the researcher. From this approach, it was determined that the concept of incremental strategies was interpreted differently and required detailed explanation. Beyond this, there was a degree of reasonableness that leads to the generalization that the concepts necessary for the construction of the model are not too complex to be understood and applied by the staffs of the colleges used in this study.

5. While the actual usefulness of the model was not tested, its applicability to the task of relating new programs and projects to financial feasibility was most clearly seen at Hiram and Stetson. These two institutions had instituted policies that required all new programs to be self-supporting. The lack of clarity in the intent of the policy left some confusion in the minds of administrators, which might have been cleared up if the UR had been available to the trustees as a means of communicating their desires to the organization. The UR can be a useful communication device in the long-range planning process once it has gained the confidence of those who try to use it.

Finally, a word should be said about the relationship of the model to academic excellence in programs. In the beginning of this study it was admitted that many of the abstract values of academic programs were not to be measured by the proposed model. It was to be only a financial planning model intended to measure the financial ability of an institution to accomplish its strategies. Quality academic programs often are the result of such factors as higher faculty salaries, more faculty research, selective admission standards, and emphasis on faculty education and development. All of these have financial implications which can be compared to financial constraints through the use of the UR.

Indications of the value of academic programs, the competence of the faculty, and the quality of the student body are often estimated by other measures such as the per cent of graduates applying to graduate schools (this measure was used at Hiram College), scores on various achievement tests (GRE, for instance) and by the number of terminal degree holders on the faculty. All of these are worthwhile tools but they measure values outside the scope of this study. The model proposed here only measures the institution's financial ability to sustain the high standards of quality.

CHAPTER VII

SUMMARY OF CONCLUSIONS

In summation of this research the conclusions which have been drawn at several points will be outlined in this final chapter without further discussion. In addition, some general impressions concerning the financial status of private higher education will be noted and, finally, areas for further research will be suggested in the hope that the usefulness of this study can be extended.

Conclusions Concerning the Need for the Model

The three-stage financial planning model was conceptualized out of a need identified in Chapter III from the comparison with industry's policies in the process of managing capital expenditures. Three basic differences between industry and private higher education were noted.

(1) A general statement of the broad objective for private colleges was suggested--to offer to the public a particular selection of programs and courses as identified by the faculty and deemed financially feasible by the trustees. Industry, to a greater degree than private colleges, has developed methods for converting this type of broad mission into viable strategies or action plans--management by objective.

(2) Industry has made more extensive use of quantitative measurements of the organization's financial performance.

(3) The organizational structure in industry more clearly identifies lines of authority and responsibility than is true in higher education. The diffused decision-making process was particularly noticeable in matters in which educational policy was confronted with financial feasibility.

It was concluded that the model could function in these three areas in higher education in the way that other methods and techniques have served industry.

Finally, it was observed that the college president was the center of the decision-making process upon which responsibility for implementing the model should rest. He has the task of relating the abstract educational policies of the faculty to the financial objectives set by the trustees. The model could be used by him as an objective means of bridging the gap between academic purposes and financial responsibility.

Conclusions from the Development of the Model at Lynchburg College

In Chapter IV the financial planning model was proposed to assist in the three administrative areas identified in Chapter III.

(1) The first stage of the model, the framework for strategy formulation, could provide top administrators a means of converting broad missions into action plans.

(2) The second stage provides the means of allocating resources to the strategies set by administrators and approved by the trustees.

(3) The final stage, the computation of the Utilization Ratio, can serve as an instrument for the trustees to set "target" financial goals, it can serve as a planning and control technique for top administrators to evaluate annual operating and capital budgets, and it can serve as a communicating device between the faculty with its academic responsibility and the trustees with financial concerns.

As a result of the test of the model's usefulness, presented in Chapter V, several specific conclusions can be made.

(1) If the UR is to be most effective, a target ratio or range should be set by the trustees to provide administrators with specific goals for the total package of strategies.

(2) The effectiveness of the UR will be increased if strategy statements are worded to also identify strategic sources of income.

(3) Strategies should be included in the long-range plan when top administrators and trustees are agreed that the sources of funds are sufficiently assured that strategic expenditures will not create undue risk to solvency.

(4) The UR acted as a common denominator to guide the planning process that was not typical of other more voluminous long-range budgets. Further refinements of the use of the UR,

noted in (1), (2), and (3), could make its application even more concise and effective.

(5) The three-stage model is not intended to be another logical way of classifying accounts for recording purposes; its value is derived from its use as a planning device that makes analysis and decision-making more effective.

(6) The ultimate test of the model's usefulness will come as administrators develop confidence in its reliability and effectiveness and as the process is refined.

Conclusions Concerning General Applicability

In chapter I a spectrum was suggested for the classification of institutions of higher education--from colleges, to miniversities, to universities, to multiversities. Of the schools participating in this study, Hiram College most clearly fits the college category. While no reasons for limiting the applicability of the model were found there, it was observed that potential differences between faculty and administration on financial aspects of academic programs could hinder the model's effectiveness. On the other hand, the model can become an objective instrument to demonstrate the financial difficulty for a private college in undertaking all the possible academic programs proposed by the faculty.

Lynchburg College also could be classified as a college but with tendencies toward a miniversity. The model was developed there and no major limitations on its applicability were observed.

Both Stetson University and Washington & Lee University would be classified as a miniversity with tendencies toward a university. No limitations to the applicability of the model were observed at Stetson but at Washington & Lee it was seen that larger proportions of non-tuition income along with a stable program tended to reduce the emphasis on the type of analysis proposed with this model. The model is intended to be a means of evaluating dynamic programs in which incremental strategic expenditures are a significant portion of annual costs. Obviously it would be of little value to the static program when few major changes are anticipated. The applicability of the model is only diminished if the institution expects the increase in non-tuition income to exceed the rising program costs, a situation which is contrary to the typical financial condition of private colleges and universities.

Duke was a university in the complete sense but, by their own admission, there was little tendency toward a multiversity. This university was included in the study expressly to examine larger size and organizational complexity. The difficulty in separating resources, objectives, and financial data led to the conclusion that the model should not be attempted in that type of environment until further studies had been made.

In summary, the model can have general applicability to institutions on the spectrum into the university level. The criteria for this group make it difficult to determine the number of schools involved but Table VII-1 gives a general indication of the number according to size.

Table VII-1

Private Colleges and Universities by Size
As of September, 1967

Size by Enrollment	No. of Schools	Approximate Total Enrollment
0-4000	1366	1,428,000
4001-7500	36	210,000
over 7500	42	475,000
	1444	2,113,000

Source: Opening Fall Enrollment, U. S. Office of Education, 1967.

The applicability of the model will not be restricted solely by size, obviously. Other determinants previously discussed are: the proportion of non-tuition income to total income and the complexity of the organization, particularly the existence of a hospital as at Duke. Since no research was undertaken at institutions in the upper levels of the university or the multiversity category, it cannot be said at this point that the model can be applied to complex institutions typified by large size such as the 42 schools with enrollment over 7500.

It is also possible that the model would not be found useful in institutions in the college and miniversity categories if they expect non-tuition income in excess of rising costs, but expectations expressed at all of the participating institutions and in the literature predict the opposite condition of financial uncertainty for private higher education.

In the researcher's opinion if financial stability is to be achieved by private colleges and universities they must work toward several objectives.

(1) Since there is no subject taught in private institutions that cannot now be taught in public colleges and universities, private institutions must achieve a reputation in some segment of the total educational effort for higher quality than state institutions which offer similar programs. Private schools must identify their objectives in terms of what they have competence and resources to do and limit their programs accordingly.

(2) Private schools must be more efficient in the use of resources than public institutions, i.e., duplication of effort in academic departments must be eliminated, balance in available facilities must be maintained (dormitories, dining hall, classrooms, faculty, etc.), and lack of demand for courses or majors must be accepted as a reason for terminating the offering. It cannot be assumed that private schools by nature are more efficient; it must be demonstrated.

(3) Private schools should lead in innovation in subject matter, teaching methods, and administrative techniques within financial parameters.

(4) To some degree sources of non-tuition income must be determined to at least partly offset

state support to public institutions. If this income is not forthcoming from private sources, the recourse is to the states and to the federal government.

(5) Many people still feel that there is some type of intrinsic worth to an education in private colleges. While this feeling is still alive, there has to be greater effort to give it credibility. In short, there must be a reason for parents to pay considerably more money for their children's education at a private college or university.

With all these accomplishments there still is no assurance that private education will continue. To a large degree private schools are caught in the tendency toward socialization that is evident in other aspects of society. If this tendency persists, there may be no permanent solution to the financial problems of the private schools, but those who are most likely to continue their existence will do so only if they keep financial constraints constantly under scrutiny. The model proposed in this study was designed to provide information to assist in this continuing task.

Topics for the Extension of This Research

1) The major deterrent to the applicability of the model at Duke University was organizational complexity in the form of the teaching, research, and hospital functions. If further research were to develop a logical means of "divisionalizing" a university such as Duke, as has been done in large multidivisional businesses, it would seem possible to apply the model to the teaching function. Such a study could also

provide valuable insight into the process of the allocation of resources in a complex university and, in the researcher's opinion, the UR could be applicable to the problem.

2) This study ended with the presentation of a methodology with no attempt to critically analyze the actual strategies uncovered at four institutions. The task still remains for administrators to put this framework (stage #1 of the model) to actual use as it is being done in business. The ultimate usefulness of the model depends upon whether concrete strategies can be identified by administrators in an environment which is more concerned with abstract missions than it is with pragmatic objectives for financial stability. The degree to which the framework will be helpful in this endeavor must be answered over a period of time as it is used in different schools. This type of extended application should result in further refinements of the model.

There were tendencies at some schools to generalize concerning their strategies, i.e., to emphasize undergraduate education, to be a liberal arts school, to undertake only self-supporting programs, etc. These statements do not represent "action plans" or strategies as much as the broader mission of the school. Ultimate financial stability requires that specific strategies be identified that can direct the effort of the entire organization as well as eliminate the programs and projects that are beyond financial feasibility. Without tangible strategies, faculty, trustees, and administrators are free to interpret broad missions for themselves.

3) It was concluded that the model may not be as applicable to institutions that have substantial income from sources other than student tuition. There is an implication from this that public institutions which have access to state support may not find the model applicable to their type of

financial requirements. No research was undertaken to test this possibility; therefore, more evidence is needed to determine the validity of the model in the context of state-supported education. It seems possible that the framework for strategy formulation and the identification of strategic expenditures might be useful to administrators in public institutions when negotiating with their state authority for budget appropriations. These two stages of the model may be useful even if the Utilization Ratio, the third stage of the model, proves inappropriate.

4) In discussions with the presidents and chief financial officers it was determined that the concept of debt capacity in private institutions was not well-defined. At Hiram College the president suggested that debt capacity was probably limited to the size of endowment funds and the realizable value of the property. At Washington & Lee University the opinion was offered by the treasurer that debt should only be used for self-liquidating purposes. At Lynchburg College the financial vice-president suggested that the debt limit was determined by the ability of the institution and its constituency to meet principal and interest payments from current funds. There is noticeable and significant disagreement in these approaches to debt capacity. The financial strains now being faced by many private colleges seem to warrant further research into this topic.

5) For the purposes of this research, "planned capacity" was defined as the smaller of classroom capacity or the professor's attitude concerning class size. This definition seems justifiable at Lynchburg College but further research is needed to develop the proper balance of resources. Guidelines for determining capacity seem to be called for and should be studied in more depth than was allowed by the scope of this study.

6) At each institution (with the exception of Duke University) it was apparent that their strategies were clearly related to the background of their presidents. At Hiram College the president came from an administrative background and the strategies he enumerated reflected his emphasis upon management. At Stetson University, the president's background was the foreign service and a close association with the Baptist denomination. The strategies at that institution emphasize both of these interests. At Washington & Lee University the president had recently been appointed from the faculty. His objectives demonstrated a desire to maintain Washington & Lee in its existing form. At Lynchburg College the president had come from a high administrative position in the federal government. Since taking office, he had placed considerable emphasis upon government-sponsored programs and upon closer ties with government agencies. These experiences indicate that a college or university searching for a new president should attempt to match their future problems with the background of the man they ultimately select. The ramifications of this process need to be studied with the objective of illuminating the task of the trustees who must make the selection.

In addition to these six topics, many refinements to the model can be suggested, the whole area of the dual decision-making system needs continual study, the public versus private system of higher education is still fertile for research, and the effect of the restrictive tenure requirements on higher education (particularly private colleges) needs greater analysis. Hopefully these extensions of this study can be undertaken and can provide for the greater usefulness of the financial planning model.

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APPENDIX A-1

INTERVIEW WITH DR. M. CAREY BREWER
PRESIDENT OF LYNCHBURG COLLEGE

RESEARCHER: We talked about the college's strategies the other day, but I need to look at some of them in more detail, such as the plan to become a regional school attracting students from different social, economic, ethnic, and religious environments. There seems to be several things we have done to accomplish this. Of course, even if you were unsuccessful in attracting these different students, the fact that you have got such a strategy helps you attract faculty.

BREWER: Absolutely. You don't accomplish anything 100% but if you set a worthwhile objective and achieve 65% of that objective, you indeed have accomplished a lesser but worthwhile objective.

RESEARCHER: The regional school strategy, then, created the need for more dormitories.

BREWER: With a community college system in Virginia and one right here in our midst, it meant inevitably a shift in the pattern of local students in going into institutions of higher learning. This meant that whether we desired to grow or not we knew we had to increase the residential character of the school. It really is becoming a residential school and this is in keeping with our desire to make it a regional school. This fact fits with our desire to make it a more regionally-oriented college, and the dormitory effort was a definite part of this.

RESEARCHER: Washington and Lee is in a little bit different category. They are almost a national school and certainly a regional school. They attract very few, I suspect, from Rockbridge County.

BREWER: Very few, indeed. I don't know what the percentage of Virginia students at Washington and Lee is, but it is quite low. Not as low as most of our women's colleges. I think you will find in some of our prestigious private women's colleges in the state that Virginia residents are less than 20%. On the other hand, I know two years ago 85% of our students came from within the state of Virginia.

RESEARCHER: You mentioned the Community Colleges. I think that leads to why you have the second strategy of going into graduate education. Is this strategy related to the desire to become a regional school?

BREWER: It is. The two are related in that in the past we had all the options. We could be a second-class, last-chance school and derive a certain benefit from serving marginal students who couldn't go anywhere else. To what extent this option was exercised, I don't know. But the fact is that the school could make a judgment to go anyway it wanted to. With the growing costs of everything, the increased costs of operating any enterprise, the enormous increase in the cost of getting and retaining a first-rate faculty, and all the equipment and resources required to do this job, we had to make a judgment that if we were going to emphasize the quality aspect of our program we needed to move in a hurry. We needed to expand our physical plant base as well as our financial base. The entry of the community college reinforced the strategy of going for qualitative improvement as well as the physical expansion. If the qualitative improvement included our graduate offerings in the community, this clearly would be beyond the capability of a community college, but fits it in very nicely with our undergraduate strength.

RESEARCHER: It also helps offset any loss in numbers we might have at the freshmen and sophomore level.

BREWER: That's a by-product but not a determining factor.

RESEARCHER: What do you think are the criteria for establishing graduate education for a college that hasn't had it before?

BREWER: One, you must be strong already or desire to create a strength in that area in the undergraduate program because you can't have a strong graduate program without an undergraduate substructure of some kind. Two, you must have a demand for it. Yes, a market so that you will have the support in terms of numbers and patronage required to carry it. If you have those two, either existing strength or a desire to create that strength, then you can do the job.

RESEARCHER: Do you mean this strength to be in the quality of faculty, in number of students, or quality of the students in the areas?

BREWER: Of course, we said that these facilities would include library holdings--in sciences obviously laboratory facilities.

RESEARCHER: In our MBA program basically we recognized a community need.

BREWER: The decision to do it was made simultaneously with the decision to improve our undergraduate program.

RESEARCHER: Right. Education, I think, is kind of the same story, isn't it?

BREWER: Yes,in the field of Education, I think it is basically the same. Actually we have been very strong in that field for a number of years and when we talked about graduate studies, the first field to suggest itself was Education. There were other criteria too; a ready market, the large number of teachers and administrators in the public school systems who need this kind of opportunity close to home. It was the same for the MS program. Two major technically-oriented companies in the community required graduate training in physics, a substantial supply of students, the fact that we were very strong in physics to start with and a willingness to expand the program made the MS program possible.

RESEARCHER: Right now, our MBA and MS programs are totally part-time arrangements for people in industry. Education is primarily that except they do have a few full-time people.

BREWER: We will have a MAT program that is full time.

RESEARCHER: In order to go to a full-time graduate program, to what extent do you have to draw on your own undergraduate program?

BREWER: Well, I don't know. I think it can go both ways. I think that some MAT people are no doubt out of our undergraduate school, but the key point is that up until the time when we instituted the

MAT, we had not been able to attract the students because of lack of scholarship support. The MAT program is fully funded under a USOE grant, I think, in which these fellowships with stipends and living expenses are paid to the students. This MAT Program was only possible because we already had an established M.Ed. program. In order to move into this field, you've either got to have a separate source of funding or you are not going to compete with the established graduate schools in these areas where the students are required to pay their full way.

RESEARCHER: Then, in the MBA program if we are able someday to initiate a full-time program, we aren't going to have that kind of support obviously so we must attract students to the program with little hope of financing from other sources.

BREWER: Absolutely.

RESEARCHER: Now it is under these conditions that I'm wondering how many students from the undergraduate program we will be able to draw into the MBA program.

BREWER: I think that as our students become conscious of the quality of our undergraduate program in business administration, we will not only have increasing numbers, we will have improved quality. Already the quality of the undergraduate program in business administration today is at an all time high in the college. It would be my guess--it is just a judgment--but the fact is that when these students develop an appreciation for the kind of graduate program we have, there will follow an increase in the caliber of the undergraduate students. Let's look and see what the options are for the future. We know we can't do anything other than go for quality in every area. There are no inexpensive, low cost and low quality education fields left to us even if we wanted it.

RESEARCHER: O.K. Let's move on. We say that one of our strategies is to meet the community need for continuing education programs. This is being done through the Institute of Management, the Institute on Education and the Research Center's programs.

BREWER: All of the related community-oriented programs are in a sense a community service, that is, a use of the college's resources in the public interest. Our faculty will have an opportunity to participate with additional compensation in these research projects; and as we enrich the whole enterprise, we take a load off of the student tuition and we can attract the top quality personnel we want. Even though the faculty becomes involved outside the regular curriculum, I would rather have two-thirds of the time of a top quality person than three-thirds of the time of a less qualified person.

RESEARCHER: The next strategy I'd like to discuss concerns our commitments to maintain the moral, ethical, social standards of a church-related institution. Let's talk about the church-related institution concept first. The Danforth study, by Pattillo and MacKenzie, reports that basically you can't define this term.

BREWER: There are many aspects of it, many kinds of church-related schools. There is the pattern of the very doctrinally close fundamental institutions. Then there is the kind that has a strong connection with the church and is genuinely sincere about this but places no sectarian emphasis on the program. And thirdly, there is the kind that is only incidentally related to a church; it makes little of the fact of its relationship which is largely historical. Of these three categories, we are in the middle. That is, we are not sectarian in any aspect of our academic program. We feel a commitment to preserve our constituency in that we will promote and provide scholarships for ministerial students--things of this kind. Naturally we draw students and some money from our churches because of alumni connections. But the fact is that we do foster religious activities without any sectarian bias. There is no test of religion for admission or for employment by the college. We have a Rabbi on the faculty, an Episcopal priest is teaching chemistry, Catholics and most denominations are represented. But the fact is that we are a church-related school--in other words I see this as a part of the total learning process of the student. We provide the total environment. Today it is getting tougher and tougher to provide for that total environment because you can't compete for their total attention with all that is going on in the world. But at any rate by example as well as precept you can influence the basic value attitudes of the student in a church-related environment. These things which we hold up before our students I think are important to them and it deals with spiritual as well as mental growth. They can condition the mental approach here to the point that a person can take a wholesome outlook on his whole of life and his whole idea of learning. We think that is a valuable component to retain.

Now, let's assume that for some reason the college is forced to sever its connections with the church. This is not too far-fetched. It would be regretable, but the fact is that if the court tests ever eventually hand down decisions which would bar the college from receiving the kind of massive federal aid presently available (say on the order of a half a million dollars in student financial aid each year representing about 30% of the tuition and fees paid by our students) this would mean that about 3/4 of our students would go to another institution where those financial aids are available. It would mean that our clientele would have to be very well-to-do and consequently it would be forced to reconsider our church connection. But it would be a "life-and-death" decision for us and faced with that I wouldn't want to anticipate what the trustees would do but you have to consider that possibility. Even then, if we severed official connection, I think the nature of the institution is such that we would still want to foster the Judeo-Christian values within the framework of our academic program so that every youngster coming here would know that this institution is as much concerned with his spiritual and moral attitude and disposition as with his physical and mental development.

RESEARCHER: The college Charter specifies some things concerning church relations, does it not?

BREWER: Not any more. We adopted a new Charter last fall.

RESEARCHER: I wasn't too sure that ...

BREWER: There's no connection to any church. The bylaws have a reference. Our bylaws require that two-thirds of the members of the Board of Trustees be members of the Christian Church--Disciples of Christ.

RESEARCHER: They do now?

BREWER: That's our new bylaws, but our Charter which used to specify our church affiliation now has no reference to the Church.

RESEARCHER: I see. The Charter itself never was explicit about what the relationship should be.

BREWER: It was never a specified relationship. There was simply a specified composition of the Board of Trustees, which was two-thirds.

RESEARCHER: O.K.

BREWER: Now in keeping with the State Corporation Law, we have Articles of Incorporation replacing our Charter. We updated it and generally have adopted the language in the statute books providing for a corporation of this type. In that sense it was not necessary to be too specific except for the purposes of the institution. Therefore we simply use our own internal bylaws as a place to impose the requirement of church relationship.

RESEARCHER: I think as far as committing money to this strategy is concerned, the Chapel is the best example. If we were going to try to uphold ethical, moral and social standards we needed a religious focal point, the Chapel. We also hired a Chaplain and we have definite Christian activity programs of all sorts requiring minimum amounts of money.

BREWER: Yes, the Chapel is an outgrowth of that commitment. It was not dependent upon the assessments we made four or five years ago. It is a continuation of the commitment the college already had and the Chapel is, as you say, the manifestation of one strategy, and hopefully it will have its impression.

RESEARCHER: The next strategy I'd like to discuss is the goal of requiring a well-rounded general education program for students in all majors. Of course, we are talking about holding on to the idea of a liberal arts education.

BREWER: That's right. As this concept may change, we may change with it, but right now our approach is opposed to a professional approach and yet is far from the idea of classical training in the undergraduate program that you find in a number of institutions, particularly the very small institutions which emphasize the classics. This is much more broadly based and more toward the professional than toward the classics.

There's no question but it is a large concept. A liberally educated individual is what we want.

RESEARCHER: This strategy justifies, I guess, the Fine Arts program we have. Obviously we can't justify the program economically.

BREWER: No. We cannot. Let's say that the whole of the Fine Arts program is here because of the need for a college community to have not only classroom encounters but also extra-curricular exposure to the fine arts. We take this as a very important part of the total education of the individual.

RESEARCHER: The library I think would fall into the same category.

BREWER: Obviously, the library is a basic resource and you put an awful lot of money into it, but there are no alternatives to it.

RESEARCHER: Let's see. I want to move now to the objective of maintaining the size of the enrollment between 1500 and 2000 students.

BREWER: We adopted the strategy three or four years ago. We were faced with a physical plant which had not been substantially altered in 30-40 years. In the preceding 40 years, the college had added two small dormitories for men, one dormitory for women, and a science building and a library. The library became the first separate building for a library. Perhaps you could get into it physically as many as 70,000 volumes, which was totally inadequate. The gymnasium was built to accommodate about 150 students around 1925. We needed a new gymnasium for 1500 students, we needed a new dormitory because of that strategy, we needed additional classroom space, and we had no fine arts facilities at all--no auditorium. In adopting this strategy obviously we needed more students if we were going to expand the total program. We needed a replacement for our kitchen, dining room and a student activity center. All these things, except the dormitories, we had to have whether we increased enrollment or not.

Now with the basic enrollment of 800 students, we were locked in financially. We could have doubled the tuition and still not have achieved the financial base we needed. It just was not within the realm of possibility. And also in view of the fact that we needed a significant expansion of course offerings. We then decided we had to build, not only new buildings to replace some of the older ones, but larger buildings. We had no way of raising the money required to build a major gymnasium with the kind of financial base we had. So if we built, it meant we would have to take on the larger program to get the challenge before the Board to develop the whole base of operation. So when we built that gymnasium instead of building it just to replace the old one, we would build it to accommodate a range from 1500 to 2000 students. The cost of doing the job on that basis probably would be no greater than 20% of the cost of just replacing the facility. We also needed a student center which would house the post office, bookstore, student snack bar, kitchen, dining room whether or not we did anything to the size of our student body. But the expansion of the student body made it possible to build more adequate buildings that will serve between 1500 to 2000. It may be snug with 2000 and it may be more than adequate for 1500, but the fact is that in either case it will be much more adequate than the nonexistent facilities in the preceding situation. All this conditioned our decision.

RESEARCHER: We also plan to actively seek endowment and federal funds to minimize the pressure of high tuition rates. Right now we are probably getting a higher proportion of our income from the students than most other colleges.

BREWER: That would be for current operating expenses.

RESEARCHER: Right.

BREWER: But, at the same time, I think the students themselves are getting a whale of a bargain for the kind of money we are raising for capital improvements.

RESEARCHER: What do you mean?

BREWER: I mean all the new facilities which are not coming from student sources. I mean their tuition remains the same whether we have a new library or not; whether we have 60,000 volumes or 200,000 volumes. There is one other thing too, that is, because of the system of accounting and reporting in the Southern Association, maybe all the colleges and universities, we can't depreciate academic facilities. That being the case, you really can't charge off to your operating expenses one of the heaviest items of expense, depreciation of academic facilities. We can set up reserves for auxiliary enterprises and in that way write off all of our dormitories and the dining hall, but there's no place to put a reserve for replacement of academic facilities because traditionally the people expected those to be given to the Colleges. A high proportion of our operating costs are paid by student fees, but I don't think it's excessive when you add to this the $60,000 we receive through VFIC plus another $60,000 from the church which goes right into current funds. So we are putting about $120,000 into the current budget before the first student fee is collected and we are not depreciating any of the academic facilities.

RESEARCHER: We also have endowment income.

BREWER: Yes. There would be another $80,000. When you put all of these together plus the other gifts for current operations,(we get a lot of gifts for current funds) then you see we are doing a pretty substantial part of this ourselves and the students still are not paying probably more than 75% of our real operating costs. In fact when you think of depreciation too, it would be less than 50%. But we are making up for that through gifts to capital which we use for academic facilities.

RESEARCHER: The last strategy I have down here is to maintain those existing programs for which there is a demand by a significant number of students. As you are well aware once you get a program going in the academic world, you are locked into it because of tenure and custom of retaining faculty. It becomes almost a fixed thing which makes it necessary for us to take a long-range viewpoint.

BREWER: You have to adopt a long-range viewpoint, but let me suggest this. Within recent memory we have carried a Secretarial Program which was an outgrowth of a very early curriculum which trained anybody who wanted to come to Lynchburg College. If you wanted a four-year baccalaureate, you came here for four years. Only recently have we recovered from that earlier strategy and discharged our obligations under it. It took only time to revise the program because of the tenured position of the instructor, but upon her retirement a change became feasible. So you have obligations whenever you start one of these things.

RESEARCHER: This is my point. You do get locked into them because of many obligations. Tenure is one of them. I would like to get your comment on two things, tenure and academic freedom.

BREWER: I think this is too difficult to tackle as a definitive aspect of your inquiry but we admittedly have to live with it. Basically, tenure for academic personnel is indispensable for the free exercise of their ideas, teaching techniques and everything else. Even with tenure and guidelines laid down by the American Association of University Professors, a faculty member can be removed for cause. This simply prevents you from taking an arbitrary action affecting a person with tenure--a permanent appointment. There are rules and procedures whereby you can proceed to remove a person if through efforts of counseling and other devices, you have not been able to get that person to perform up to the professional level required or if he can't demonstrate professional competence or if he is guilty of moral turpitude. It's just unpleasant to go that route. But all in all tenure is a very valuable aspect of the academic enterprise. Second, even economic necessity is a ground for removal. Academic freedom, however, imposes responsibilities on the individual that few people recognize today. A person, in teaching in his subject field, may present any range of controversial subject matter, but he must be sure that a balanced program is given to his students. There are obligations on him. And if he brings in a radical speaker from one direction or another, it is incumbent upon him to provide equal access to the opposite view. They must give all sides of the issue. In this sense I think few people understand the burden that goes with academic freedom. It's a great responsibility. Obviously you can't have an administration dictating to the academic faculty exactly how they are going to conduct their professional lives.

RESEARCHER: This is the point I wanted to get to. It seems to me that you have a potential conflict between academic freedom of the faculty and the strategies to accomplish the institutional mission.

BREWER: I don't think so. I can see your point on that, but I don't think it is too real. An example is our Special Curriculum Study. People are going to be afraid of what it will find out about their fields, whether they are going to have a larger share in the operation of the program in the future years or a smaller share. You take the case of Economics a few years ago. The program dried up completely, and we found that it was because of the faculty member. Confronted with this, the faculty member, offering five courses with a total of 11 students in all five, finally realized the gravity of the problem. He was a full professor with tenure, but confronted with the facts, he agreed that he was professionally not doing the job. The students were transferring out of the college if they couldn't change their major. In this instance, through prescribed procedural arrangements that man was terminated. Now it cost us (because we had to go through adequate measures to protect his rights.) Here's another example, if you can have five faculty personnel offering sections of the same course and you can see that one gets a student boycott, then this is cause to look into the matter. Many times the person attributes student boycott to the fact that he thinks he is adhering to high standards when the fact is that he simply is not communicating. If you can show this, you can face the question of tenure and academic freedom.

RESEARCHER: Take an example away from the Lynchburg College campus for a minute. At UVA they are now talking of a new complex to house both Law and Graduate Business. They have a faculty committee organized to help design this complex and in effect to deal with the architect in putting it together. Do you see this as a faculty function?

BREWER: I think that is an administrative function, but I also think there is a difference in the complexity of our two schools. It would be almost impossible at an institution the size of the University of Virginia and with its long-standing tradition of emphasis on faculty decisions for a strong president or chancellor to tell any department what it is going to do. But that is more a matter of tradition than of academic requirements. I don't see the new complex as a faculty judgment. We did have a faculty-staff committee to help deal with the architect in designing our Chapel but that committee just expressed its opinions and the actual decisions came from the administration, trying to reflect the desires of the interested parties. I think that at the University where you have such strong departmental organization, the chief administrator cannot handle the day-to-day administration of the program. He is lucky just to keep all of his appointments. It's a whole different operation. There a department is the equivalent almost of a small college administration.

RESEARCHER: You feel there is a difference in faculty voice simply because of size.

BREWER: I don't think it has to do with academic freedom. I think it has to do with tradition and size, and also maybe the confidence of the key departmental leaders. I don't know.

RESEARCHER: There is one strategy that I didn't include but I do want to mention it. Somewhere you adopted a strategy concerning the organization that has developed. The three vice presidents, the departmental structure, etc.

BREWER: That's right. In looking at the job to be done, it seemed to me that the single most limiting factor was the inability of the president of the college to give attention to all of the things that had to go on simultaneously. It was not just a question of moving ahead, it was a matter of keeping up. In order to make our other strategies work, we had to move on all fields at the same time and at approximately the same pace. Therefore, by reorganizing the key people we already had, the three vice presidents, and vesting in each of these vice presidents final decision authority in any matter affecting his field and not affecting the other fields, it became a matter of reporting information to the president's office rather than requesting decisions. It doesn't work this way all the time now. But the fact is that each of these vice presidents has a great degree of latitude in carrying out his function. The basic decisions are made at budget time. If he gets funded to carry out a program, he doesn't come back to me and ask if I want that program budgeted, for it and the budget were approved by the board. It's the same way with the board. If the board passes on a budget, it is authorization to proceed. I could spend all of my time in any one of the three areas, but I would be substituting for the vice president. That's the way it has worked, and while we have had frequent meetings together, we don't have any channeling of information. Any information that is in any of these channels is available for all of the vice presidents. They are free to attend Board and committee meetings and are encouraged to do so in order to keep informed. This is a corporate leadership that we have here. The fact is that the three of them, if they can agree on it, can do almost anything they want without my approval or knowledge as long as it is provided for in the basic budget. There are a lot of other things on policy procedures or handling of situations or personnel on which we obviously have to work together very closely. I think the trick is to let the president's office be as inconspicuous as possible in the operation of the total program. This is in keeping with the theory that I have always had in public administration. Information is vital and decentralization of responsibility with delegation of authority, is an absolute essential. Paralleling this you can look at any one of these areas and see what's happened. The most important and the most easily defined is in the academic field--the faculty.

Concurrently with the three vice presidents we set up a system of departmental organizations so that instead of having a divisional chairman only who handled all of the aspects of the majors in his division, which were informal departments without chairmen, we placed final emphasis on a series of about 22 departmental chairmen. Then the more senior personnel with a knowledge of many fields were constituted as division chairmen serving in advisory capacities to the dean and also in a counseling capacity with the departmental chairman within his division but the decisions are made at the departmental level. For the first time, then, the department chairman is responsible for the recruiting of new people, being on the lookout for new faculty, judging the work of his own colleagues and reporting to the dean rather than the dean having to look at 100 individual faculty performances. Now, in dealing with 20 people, he can rely on them for the initiative in managing all the things that are duties of the department chairman--selection of textbooks, the basic structure of course offerings, the arrangement of sections, counseling of other faculty within their department. All of these things are now done on the initiative of the department chairman as long as he can clear this with the dean and be in harmony with him.

RESEARCHER: Let's talk about James Perkins' definition of the mission of a university; the acquisition, the application and the transmission of knowledge. Do you agree that this ought to be the definition for a college also?

BREWER: The general prescription applies to some degree to all of these institutions of higher learning, small colleges or large universities. The larger the university the greater emphasis on the acquisition of knowledge which is a mission of public service. There is the same emphasis on the transmission of knowledge, which is the mission of teaching, maybe not directly, rather through the preparation of textbooks and teachers; that's a teaching mission also. In our type of institution the middle one, the transmission of knowledge, is important. We place most emphasis on the teaching mission of our institution, but as we expand, our strategy is to take on some of the aspects of the other two without endangering the basic and primary emphasis on the teaching role of our faculty.

RESEARCHER: In all my research so far I have not been able to come up with a clear distinction between a university and a college. Have you thought about this?

BREWER: Well, I think it is largely a matter of the disposition or posture that one takes. Basically I would say a university would be an association of several different kinds of academic enterprises. Possibly one good way of thinking about it would be whether or not you offer doctoral training, not just some graduate offerings. Let's take our situation as an example. With three or four graduate programs that are infinitely smaller than the undergraduate teaching program, we are basically a college but we could if we preferred call ourselves a university. Many times when colleges put in divinity schools they consider themselves universities. If there is a law school or medical college, then a university status would be important. This would constitute the trappings of a university. But by and large if the institution is a homogenous or single type of operation with little attachments of other kinds you think of it as a college. If you had any kind of specialized schools,even undergraduate specialized schools, such as engineering, then perhaps you would move toward a university.

RESEARCHER: Now, let's go on to some more questions. How do you see the role of the Trustees, the President, the Administration, and the Faculty in setting policies concerning finances, public relations, academic programs? Let's take a look at finances first.

BREWER: Finances. I see this as the fundamental responsibility of the trustees. You've got to have good staff from the president's office and his supporting personnel in this area to do anything. You will get many suggestions from faculty, but very few faculty-initiated basic programs. They don't normally come to these decisions by analysis or anything else. They may find that something is wrong or urgently needed and do something. Few financial matters initiate in the faculty. Even the Board rarely initiates action except when something goes wrong and comes to their attention. Primarily the chief source of information to the faculty and to the trustees is the president's office and the administration. The initiation must practically always come from the president's office or the administrative staff.

RESEARCHER: And the overall approval then is a board function?

BREWER: That's right. You arrive at your judgments partly through requirements to meet the needs of the faculty. This influences your judgment, which influences your recommendations to the Board. You should always put it in such a way that the Board can actually exercise a judgment. You can do it through preliminary work with a committee, or take it directly to the Board; but the nature of the case is generally set when things go before the Board; they are expected to respond favorably to the recommendation. The trick is to get the judgment of the Board to bear at the committee level, the board committee level, before you take it in for general approval. Even then the full Board has a chance to "whack" at it if they want.

RESEARCHER: How about public relations?

BREWER: Public relations is an art in itself. You've got to do a very professional job at the administrative level and then you enlist the support of your trustees and basically justify the effort just as you do any other program at the college.

RESEARCHER: O.K. How about academic or educational policies?

BREWER: Again, I think this is the same pattern. As a consequence of your assessment of the faculty requirements and desires, you work with them in formulating these ideas before you take it to the Board. On the academic requirements, I can't conceive that I would take anything to my Board without first getting the sentiment of the faculty on it. So it's initiation by the administration.

For specific courses within a program we do carry these through a faculty committee. As an example, when we started the MBA program we carried it to the trustees. We sent it through the Graduate Committee first then to the trustees, but department chairmen bring course changes to the faculty. So the faculty handles the detailed aspects of curriculum, but the concept of the total program is worked out with the department and given to the Board for approval.

As you can see, I believe in strong executive leadership. I do think the rule must be carried out with a very careful perception of where to get your information and on whom you place the burden of making decisions.

RESEARCHER: What should be the extent of the faculty and administration awareness and involvement in the strategies identified?

BREWER: I think in this sense your administration has to be project-oriented. In other words every person in the administration must see his job for what it is, and how it relates to the whole operation to the extent that it is possible. The guy down there in the printing room for example has to get that work out, to do a good job, and he will be motivated if he sees that he can achieve this. That's his project. He knows that this reflects on the overall administration of the college, which reflects on the image of the college. Then to the extent that once, twice, or three times a year, he can be exposed to the larger strategy of the school, his own project increases in significance. This is project orientation. We don't have to bring him in every Monday to go over the next steps. Throughout the administration, we do this. The higher we go in the administration, the more frequent this exposure ought to be and more direct the participation in the definition of these projects. At the vice presidential level--unless the three vice presidents can agree and are in agreement with me on the broad strategies and help to shape those broad strategies, they cannot give the direction which their individual programs require. The higher in the hierarchy, the more aware a person must be. I would say in my office, it has to be a constant daily awareness of these strategies and in the vice presidential office I think this also has to occur daily. This awareness has to be with them much of the time even though in the prosecution of their own program they may refer to it less frequently than I do.

RESEARCHER: These strategies that we have identified here probably have not been written down anywhere but they are very definitely identifiable. Also, I think the three vice presidents are very much aware of what they are although they may not be able to enumerate them exactly.

BREWER: They may not respond in the same way, but I think on a check list they would identify 100% of them.

RESEARCHER: Would the faculty also identify the list?

BREWER: They would probably come up with 50%.

RESEARCHER: What do you see as the faculty's role in identifying and accomplishing these strategies?

BREWER: For one thing you have a limited span of attention. You can't expect the faculty to keep an ear out all the time for what the administration's trying to tell them. Most of the time they are trying to tell you something. And you don't know when they are listening. In that sense it is very difficult to communicate with them. The expansion of our program to get more students on campus, the expansion of our program to get more faculty, the enrichment of our program to get salary increases, as well as sabbaticals, the faculty improvement grants--all of these things give the faculty insights into what we are trying to do. Even though you get a whack at them just once a month, and in the course of the year there will be nine whacks, they are handling their business at those meetings. There is really a limited access to the faculty attention.

RESEARCHER: Do you think there would be any value to giving them a list of strategies such as we have devised?

BREWER: Yes, I think so. I think it would be very valuable. I would say that on this question of involvement, it is particularly difficult to get faculty involvement, but the more involvement you can get the better off you are. And you can get some involvement through the operation of faculty committees, you know.

RESEARCHER: Moving to another subject, one thing came through to me as I went through the College's history; that gift from the Knight estate in 1953 came at a time when the college was not in a position to adopt a long-range viewpoint on anything.

BREWER: The Knight estate really forced a decision on them.

RESEARCHER: They didn't seem to know what to do with the money when they got it.

BREWER: When they got it they had no strategies whatsoever for its use. As a consequence it was impossible for them to make the best use of the money. Out of $600,000, they were afraid to use more than $250,000 for construction. (The remainder for endowment.) My point is, if that money were received today in the light of the experience of the last 12 to 15 years, we would use every nickel of it in order to get leverage on other operations. We would put it into plant or into any other program and use it for leverage on other programs. You could get matching funds to go with it. You would probably take that money and build a building of at least $1.5 million and be money ahead because of it. It was a poverty syndrome. They put 30% of it into a building and socked the rest of it away in excess current fund balance that gives you little annual return. It became relatively insignificant over a period of time. That's no criticism. What I'm saying is that any institution in that situation would have reacted in the same way.

RESEARCHER: To what objectives do you expect these strategies to lead Lynchburg College beyond the 10 Year Plan?

BREWER: Beyond that you reassess. My guess is that you could have a firm five-year plan. You could have a ten-year projection of strategy and have a 20-year brainstorming of ideas. The variables are such that nobody knows what the nature of higher education will be in 20 years, nobody knows what the technology in education will mean. You really can't go twenty years ahead. You can hardly go beyond five. You've got to be working today on those things you want five years from now. So let's talk about that. In precise terms, six years. Four years ago we set up a 10-year development program and at that time we projected we would need a $10.0 million increase in our program. We needed acquisitions for current operating programs, the acquisition of library facilities and other buildings, the acquisition of funds for library holdings, faculty improvement grants--all of these things totalled about $10.0 million. We had no idea at that time that we would be so successful in acquiring our physical facilities. We were successful not only because we are coming up with the necessary cash to do this job but because of the tailor-made federal programs on academic facilities. At the time this program was adopted the federal government had not enacted the Higher Education Facilities Act of 1965. At that time the only thing you could get federal money for was dormitory space or a small student center--$500,000 limitation. So at that time we projected a half million dollar dining room student center. At the time our strategy was developed we put our concrete needs in the form of buildings and anticipated that as we got money to do some of these things that we would move ahead gradually. When this federal program came through it altered our tactics but not our strategy. The strategy was dependent almost entirely upon gaining adequate facilities. In the meantime, there were certain items you couldn't postpone. We urgently needed $25,000 for certain faculty improvement projects. Also, for example, we couldn't wait to get a new library to start increasing our collection. With the change in the rules of the game brought about by the Higher Education Act of 1965, we then found that we could accelerate. We couldn't use that diagram any longer. In the case of the student center, we gambled that by building the building earlier than planned, we could get it cheaper than waiting for more favorable interest rates on it.

RESEARCHER: I am more interested in the objectives from the point of view of what we want to be.

BREWER: Four years ago we envisioned that to be anything we had to have these facilities. We weren't too concerned about what we called ourselves, but we knew we wanted to have a bigger operation, a more financially sound operation, a richer institution. Now we are almost in the position of foregoing those programs which were calculated to give us a return in cash. Let's say our money goes to plant rather than to endowment. The original idea was that we start emphasis on the physical aspects of the 10-Year Development Program and later aim toward an increase of about $3 million in the endowment fund. This would give us long-term sustaining funds if something happened and our development program should be less than a success, but I don't see any end to it. The question is how rich can we afford to be? We could double our faculty salaries and it would not be outrageous, and in five years we may have to. So it is a race. The question is, can we do it fast enough to remain what we think is a good institution and simultaneously enrich our total operation? Our primary commitment is to the undergraduate program and to the extent that we can carry these other programs, fine. I wouldn't start a law school here unless I received some kind of bequest to set it up and fund it completely. If we received such a bequest, it would have an enriching effect throughout the student body. A law school would be fine but when you get into a situation of that kind, still with a small college context, then we might change the name to a university. It really doesn't matter. The concept is really the important thing. Our goals and objectives can really be summed up very briefly by saying that we seek the physical and financial base required to carry out a first rate operation, and there are many gradations within the term "first rate." It can be anything from Johns Hopkins to Harvard University. That is the objective.

APPENDIX A-2

INTERVIEW WITH DR. JOHN M. TURNER
VICE PRESIDENT FOR ACADEMIC AFFAIRS
AND DEAN OF THE COLLEGE
LYNCHBURG COLLEGE

RESEARCHER: Would you comment on the strategy of becoming a regional school?

TURNER: We are getting more and more students from other regions. We are not exclusively regional; however, I don't think we could call ourselves a national school yet.

RESEARCHER: I think this strategy says we are tending away from the local concept that people once attached to Lynchburg College. We are not a local school.

TURNER: In our religious constituency we have always been somewhat regional.

RESEARCHER: Yes, and in the other constituencies we are becoming a more regional school. The community college is in effect cutting into some of the local students that we had been getting before. We now are going to a regional approach to offset this to some degree. There is one very good point that Dr. Brewer made. Even if we were not successful in drawing out students in this respect, we would need a statement of strategies such as this for the purpose of attracting faculty. They are not interested in coming to a school where they only teach local young people. They want to be a part of a broader based operation than that. Do you see what we are talking about there?

TURNER: Yes. In other words, you're saying regional in contrast to local.

RESEARCHER: That's right. I think that's a better way to put it, too. The next strategy I identify is: to offer graduate education in the fields where the college has competence and resources. We are not talking about offering graduate education across the board, are we?

TURNER: It's at the master's level. It might be well to put that in.

RESEARCHER: I think you're right.

TURNER: In the book by Riesman and Jenck's, they talk about so many schools moving into graduate education.[1] Of course they go into this problem of regional vs. local characteristics, too, particularly in the fields of education and the sciences.[2]

RESEARCHER: What did you think about his point on the junior colleges and community colleges? He pointed out that they are fast becoming just a continuation of high school: two more years of public education. It's forcing other colleges to go to the upper level.[3]

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[1] Christopher Jencks and David Riesman, The Academic Revolution (Garden City, New York: Doubleday and Co., 1968), pp. 13-14.

[2] *Ibid*., pp. 177-181.

[3] *Ibid*., p. 54.

TURNER: A point in the book is made that they don't think that all of the young people are going to be satisfied with that type of college experience. Many young people still instinctively feel that there's a difference in spending their first two years there and spending them on a campus where it's really college in the old sense.[4] Incidentally, I wonder what they are going to do about libraries in the community colleges? I haven't heard them say much about libraries. Are they going to try to catch up, for instance, on back files of periodicals? I guess they will do it through microfilm.

RESEARCHER: They have some sort of central library resource for that purpose, I believe. I imagine they will have a type of working library themselves with access to other central services.

The next strategy is to meet the continuing need for education in community programs and graduate work when it is compatible with the community growth and the college's resources. I think both of those points are pertinent. It seems like there may be something of a contradiction between community growth and the regional goal we were talking about.

TURNER: Well, I think we could have both strategies going at the same time.

RESEARCHER: Yes, I think we are talking more about our undergraduate program becoming regional. Right now of course the MBA program, the Science program and the Education program are all pretty localized. The various institutes that education has plus the ones we have in the Institute of Management help to meet the community need aspect. Every university and college has some responsibility in this respect, to meet the community needs.

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[4] _Ibid_., pp. 55-60.

TURNER: I think we will still be meeting the community needs in the junior and senior years even though we may lose the first two years.

RESEARCHER: Another of the community services we offer is the cultural offerings of the college fine arts programs. All of these things are here for the community's benefit and they do take part in it.

TURNER: For instance, Lynchburg is a different city from what it would be if the three colleges with their fine arts programs were not here. The next strategy listed is to maintain moral, ethical, and social standards of a church-related institution.

RESEARCHER: I would like to approach this one from two different points. First, what do you think it means to be a church-related institution? The Danforth Study talks about different aspects of that concept. What sort of a church relationship would you define at Lynchburg College?

TURNER: Because church-related colleges differ so very much--their purposes, the way they see themselves in relation to the Church--, again, speaking of the Danforth Study, I think at Lynchburg College it is much more productive and inspiring to think of it the way the Danforth Study suggested rather than the way they say some church-related institutions think of it.

I can't quote their criteria exactly but, for instance, one would be to say that you compel everybody to attend religious services. Well, we don't do this, but we place the opportunity before the students. Then there is the criterion about trustees being appointed by the Church--financial support from the church, etc. The church is involved in both of these at Lynchburg College.

We have an emphasis here that you wouldn't find generally in a state school or private non-church-related school. For instance, we present undergraduate education for people who are going into leadership positions in the field of religion, but I think it would go farther than that. I think we make more of an effort to present the possibilities in religious life. Even though we can't force them to adopt these or even to be deeply influenced by these, still we present them. And I think that it is a legitimate part of our curriculum--I mean we consider it legitimate to ask everyone to take some courses in religion because we think of religion as one of the academic disciplines deserving attention.

RESEARCHER: Here at Lynchburg College, our Charter states that we are a church-related school but doesn't tie us in any concrete way to the Disciples of Christ Church, although from the very beginning, tradition, precedents, and even some of the statements by leaders all through the history of the college have indicated the desire of the college to be closely tied to the Disciples of Christ Church.

TURNER: I think the only specific statement in the Charter says that two-thirds of the Board be members of the Disciples Church.

RESEARCHER: And wasn't that revised last year and now it's only in the by-laws of the school?

TURNER: It may be only in the by-laws now.

RESEARCHER: It kind of brings us to the point. We have a few people on campus debating whether or not this church affiliation should be. Who's going to decide this, not the faculty as I see it?

TURNER: In other words if a definite proposal were made to dissolve church affiliation, who would have to act on it? I think the Board would have to act on it. This has happened to some institutions. It happened to Butler University. It used to be one of our colleges. Butler was a Disciple's College and then it became a private institution. Their president, I think, led the movement. The Christian Theological Seminary was a graduate arm of Butler. Now it is incorporated separately so it can remain with the Disciples. I think the Board would officially consider a proposal like that. I think the recommendation of the faculty would be important, but ultimately the Board is the controller.

RESEARCHER: As you can see, some of these strategies I have spelled out are not necessarily going to result in financial expenditures. For instance, we are committed already to our religious program, although I suppose to a certain extent the

Chapel itself represents a commitment to that particular strategy. Hiring a Chaplain would also.

TURNER: Bringing in a Chaplain for the students costs money. I think that it will be well to bring in the fact that religion, as we look at it, isn't a compartmentalized thing but it is something that flows through the whole program. For instance, in a little folder that we are preparing on counseling services, among the resources of the college the Chaplain will be listed along with the psychiatrist and the deans, etc. This is an example of how religion permeates the campus. The Chaplain will be an official of the College, not exactly like anyone else, but in some ways he will participate with the others in counseling.

RESEARCHER: Another strategy requires organized general education programs for all majors. You notice we did not say liberal arts. I think we all here agree that a major is not intended to be a professional program. We do think that it is of tremendous importance to emphasize the liberal arts courses as an integral part of Lynchburg College education.

TURNER: The only difficult thing I see here is that since the general education movement developed some years ago, some people would debate whether or not our basic program in liberal arts is really general education.

RESEARCHER: I don't quite think I follow you. What do you mean?

TURNER: Are you using the term "general education" here as an equivalent of our two year sophomore and freshmen courses?

RESEARCHER: Probably the "required" part of our curriculum here.

TURNER: Some people in defining that part would say that it is not really general education unless you have courses such as Humanities I and Humanities II and unless the science program is a combination of several sciences.

RESEARCHER: I feel that liberal arts somewhere back in the past was intended to be the kind of curriculum that you would find at Hampden-Sydney perhaps. They don't have majors. I think it's as close to a pure program as you can find.

TURNER: A few years ago they didn't have majors. I'm not sure whether they do now or not.

RESEARCHER: The strategy of emphasizing strengths was not intended to separate strong departments from weak ones. They are all strong, but there are some that we could probably categorize as weaker than others. I don't think it is going to continue this way. I think Economics is going to begin to perk itself up now.

TURNER: I don't know whether you're going to list some of the strong ones, but I think it would be hard to leave out History, English, and Sociology.

RESEARCHER: I'm not planning to list any of them. These are just some observations that I made for the purpose of getting discussion. I don't intend to make any value judgments whatsoever if I can avoid it. I dare say that I won't avoid it totally, but I'm going to try to. Of course, the listed departments are the ones with which I'm probably the most familiar. I concede that.

TURNER: Would you also say that our strategies would be to develop strength in some areas where they are not so strong now?

RESEARCHER: Yes. Actually what I'm saying here is our strategy is not to spend our money broadly across the total 22 academic departments so much as it is to pinpoint the weak areas and, one or two at a time, bring them up to a better position. I think that is what's happened. It obviously happened in Business. Political Science now is coming along the same way. In English and History, you have departments that have been strong as far back as I can determine. My point here is, as a strategy, it seems to me that the college's approach has been to improve academically on some sort of selective basis.

TURNER: But you certainly say "emphasize academic strength."

RESEARCHER: I think we've done this too, haven't we?

TURNER: What I'm saying is that in listing the overall strategies, this sounds as if we are taking areas where we are already strong and building them, but I'm asking now do we also need to say that we will strengthen some other areas in which we are not quite so strong?

RESEARCHER: In other words, what you are saying is that there ought to be two parts to that strategy.

TURNER: Or a restatement of this one.

RESEARCHER: That's a good point.

TURNER: The next strategy I see is to improve the general academic program through addition of high caliber faculty, emphasis on research, etc. I wonder if it wouldn't be wise to perhaps revise that statement a little. Our policy, if I understand it correctly, is to get a high caliber faculty and to maintain our emphasis on good teaching as a primary function of our faculty, at the same time to encourage research on the part of those who wish to do so. In other words we value research, but we don't think a person's lack of interest necessarily makes him a poor teacher.

RESEARCHER: This question of research is one that I want to talk about and we may as well face it now. You are familiar with the concept of a university that Perkins, the president of Cornell, came up with. There are three aspects of it. I'm sure you have seen it in this book The Transition of a University.[5]

TURNER: I've seen references to it. I haven't read it. As you've listed them, they are research, teaching and public service. We tend to fall in the second category.

RESEARCHER: What you are saying is that the second one is the one that we are emphasizing at Lynchburg College. We are a teaching institution.

TURNER: Yes. I think as we've grown and reduced our teaching load, we've allowed people time for things that they are interested in. And also as a result of the different grants, teachers have more opportunity for research by far than they used to here. All I would say is that I would favor putting this in but not playing up research quite as much as it is played up in this statement. Emphasis on good teaching, encouragement of research, is the way I feel.

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[5] Perkins, *op. cit.*, pp. 9-10.

RESEARCHER: As a matter of fact, Dr. Brewer expressed this same idea. He says we are basically a teaching institution, and the research here is nothing more than a means of providing the opportunity for the faculty. It leaves a question in my mind though about the way we have the Research Center in the organization. To me if this is the objective of our Research Center, then shouldn't it be more closely related to the academic side of the institution?

TURNER: Well, the Center for Institutional Research is for the development of research projects in which faculty members can participate if they want to. But I think the key difference here is we do not require research or have a "publish or perish" policy. Maybe we will some day, but I don't see it in the future.

RESEARCHER: I don't think this is our intent, but it seems though that our approach to research here isn't necessarily academic research; more of an institutional research.

TURNER: Yes, just today our Research Director was talking about some of the things they do. They also do community research projects which will be of benefit to some group in the community.

We might get a grant for it maybe through the poverty program or somewhere else. The Research Center carries it on with whatever help it can enlist either from faculty members or possibly from its own staff.

RESEARCHER: Aren't these community service projects more than research projects and don't you think they might fall under Perkins third category of public service?

TURNER: They are public service frequently, yes. The YMCA wants to find out what the opportunities are for their service to the community, what's the need, what expansion of service and/or facilities would be helpful to the community. They came to us to help them find out about it. That's acquiring knowledge through research. What's next on our list of strategies? To maintain the size of the undergraduate program between 1500 and 2000 students.

RESEARCHER: The number is always quoted at 1500 approximately and I suppose that probably should be it except that when we are building dormitories for over 1200 students, it looks to me like we are talking in terms of more than 1500 total students.

TURNER: Maybe so. Several years ago we decided we had to become more and more of a dormitory college because of the Community College development. It remains to be seen whether some of the junior college and community college graduates will come here in the fall of 1969. I mean those who have finished two years. Well, as far as I'm concerned, I'm content with 1500 students here. I don't know about Dr. Brewer. What did he say on that?

RESEARCHER: Fifteen hundred was his figure also. I think this is being brought out by these studies Dean Pratt[6] and I have made. We are going to try to maintain 1500 with a capacity of about 2000. We are generally operating with a capacity of about 2000 with 1500 in it, 75% in other words. I don't really think you can get much beyond that without straining anyway. This concept of defining capacity is nebulous and it is just a useful number to which we can relate utilization.

TURNER: I agree with you. Certainly that's true on classroom utilization.

RESEARCHER: That's right, because classroom utilization is not the limiting factor on room capacity. It's faculty attitude more than classroom size. I'm getting a little bit ahead of myself. I want us to come back to that one however. Concerning the 1500 to 2000 students, we are talking about undergraduates. In the graduate program, I think we have considerable room for expansion because that's mostly evening. We can make better use of the facilities. I would say that if we try to maintain the undergraduate figure, you have pretty well determined the size of your faculty, the dormitory space, the size of the physical plant, etc. Everything is kind of balanced on the undergraduate capacity we want to plan for.

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[6] Mr. Dean Pratt, Registrar and Assistant to the Dean, Lynchburg College, Lynchburg, Virginia.

TURNER: Next, to actively seek endowment and federal funds to minimize the pressure of high tuition rates. I think as Dr. Brewer probably told you, as we get the buildings that we need a few years from now we will be able to put more emphasis on endowment. For instance, I think that donors can be attracted by such specific projects as "a Chair of History," "a Chair of Sociology," giving a name to it in honor of someone. That can be, for some people, as attractive as a building and that kind of thing becomes a part of endowment; it is an endowed chair. It helps to pay the salary of a person who teaches. Undoubtedly that's right.

RESEARCHER: Endowment funds are a rather expensive way to support anything, aren't they?

TURNER: That's true and I've read that heavily endowed private institutions still are having trouble meeting their payrolls, but how else can you do it? A few of them have gone into the stock markets, haven't they?

RESEARCHER: Yes, some are investing in more speculative stocks now.

TURNER: If you don't go for endowment, how else does a private college supplement its tuition?

RESEARCHER: I don't know. There is something I thought about a long time, and it relates to the way industry approaches its giving programs. Generally what they do is to take a position that they don't want to get themselves totally committed to any one institution so they spread their contributions around. They don't want to get an institution to feel that it has a right to the company's money. Maybe that's wrong. Perhaps what could happen is that instead of the college maintaining endowment funds, large corporations could give to one or two or three specific private schools thus providing substantial amounts to a school each year to replace income in endowments. This way you would be operating with current money and would not have millions in endowment funds tied up.

TURNER: The disadvantage to the college would be that those corporations would feel that they should run the college and determine policy.

RESEARCHER: But isn't that a danger that we face with federal funds?

TURNER: Yes, with the exception of federal grants to statewide higher education which everybody supposedly shares in. I have never seen a great deal of evidence of federal policy control. I admit that with some frequency much of the money for research comes from the federal government. It puts us in a dangerous economic situation, if the government should turn off its source. That's a kind of danger you would have wherever the money comes from.

RESEARCHER: That's right but in one sense when the federal government says that they will support the science and not, say, the humanities, then the first thing we do is start pushing science programs and, to that degree, they do have control.

TURNER: Yes, but this control has a very loose direction. Let's move to the next strategy; to maintain existing programs for which there is a demand by a significant number of students. I think this is true. We are not talking here about doing away with programs just because we are short a few students one year. Nobody is concerned with this.

RESEARCHER: Let's move on to something else. There are certain concepts that I have to get straight. For instance, the distinction between a college and a university. From what I have been able to read there is no clear distinction. More than anything else, it is a question of your intent. You can use Perkins definition of the concept and say that a lot of colleges are attempting all three functions of higher education. We don't consider ourselves a university. Other people have suggested that if you have a professional school such as a law school or a medical school, you are a university. We do not have and we don't offer doctoral work. All these have been used to distinguish universities from colleges. Are these the things that you see as the distinction?

TURNER: I think that's an adequate distinction. The institution that offers doctoral work and has professional schools is pretty clearly a university.

RESEARCHER: Clark Kerr talked about a "multiversity." But he is talking about something even bigger than the university.

TURNER: It's so big that they don't feel much of a union in it anymore. But for all practical purposes in a college the undergraduate teaching program is of primary importance, but in a university undergraduates sometimes feel that they don't amount to much. With all the other programs, the professional schools, the graduate schools, and the research areas the faculty members look down on undergraduate teachers. So those differences develop. That's not to say of course that all universities have bad undergraduate programs. That's not true at all. Some of them have very good ones. Fortunately the good teachers in universities have a high regard for undergraduate teachers who try to do a good job at it.

RESEARCHER: Yes, they do. Well, I don't think it's a term that's going to be defined explicitly. Again, it's a question of intent quite often.

TURNER: There are some colleges which have become in effect universities and which have kept the designation, college, in their official titles.

RESEARCHER: Dartmouth College is one. It is clearly a university but they choose to call themselves a college. Now there are a couple of other terms I want to get your ideas on here. Academic freedom and tenure. Again, I know that there is no universal definition of either.

TURNER: Well, there is the statement in the old Faculty Handbook written at the time we had the great racial trouble toward the end of President Montgomer's administration. I wrote the statement that was in that old Faculty Handbook. It was in the Faculty Handbook up until the year when we wrote the new one; the statement now is generally that outlined by AAUP.

RESEARCHER: It seems to me here that this concept of academic freedom has taken on more weight over the years. A lot of people have the idea that it is traditional in its present form. I think as you look back, going all the way back to the colonial times, the professor's academic freedom was achieved through the fact that he was a professional outside the classroom, like a lawyer or a doctor or a preacher. He got his freedom because he was respected in his profession as well as in the classroom. As education grew, people became teachers full-time and the teacher became a professional in his own right. His professional status was a carry-over from the earlier teacher who was in other professions as well. So the new professional teacher acquired freedom of sorts until the emergence of AAUP. It seems to me that there has been a very definite trend towards more and more freedom for faculty members as the result of the work of AAUP. I don't really see this traditional quality to it that people have been talking about.

TURNER: That's one thing that struck me. In Jencke's and Riesman's book, they don't have a great deal to say for the quality of teaching in the universities early in the 18th and 19th century.[7]

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[7] Jencks and Riesman, op. cit., pp. 90-91.

They think they were a little poor. Maybe they were a little too hard on them. But they did point out that the teacher's efforts to develop as a professionalist as a teacher is a relatively recent thing. I certainly agree with that.

RESEARCHER: There's another book over in the library, Frederick Rudolph's History of American Colleges and Universities, which traces this thing too.[8] He pretty well has the same idea and there have been several who said the same thing. Two hundred years ago in any community, education was just the result of the most educated man in the community taking over the students and teaching them whatever he knew and from there they would go on to some college--not university but college--Harvard or Yale. Because of their poor training a good part of what the students learned was the same kind of things that we would be teaching now in the elementary grades.

TURNER: Another factor that affects academic freedom is the mobility of professors today. When it comes to efficiency vs. the academic discipline, the main loyalty frequently is to the discipline. They may move from one college to another according to wherever their services are needed and respected the most.

RESEARCHER: It seems to me that these loyalties are in three levels. As you say, first to the discipline itself, then to the teaching profession, and only thirdly to the institution.

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[8] Rudolph, op. cit., pp. 157-160.

TURNER: It would be interesting to know what each of our own faculty members would think about his own loyalties if he would really admit the truth. I don't know what he would say.

RESEARCHER: I guess maybe I'm really concerned about having a combination of academic freedom and tenure. These two together I think create a situation that potentially could create conflict with institutional purposes.

TURNER: I really think the professors "have their cake and eat it too" because the institution is put into a position of saying you are here, you have tenure except in cases of moral turpitude or gross inefficiency, but the professor may leave any time he wishes.

RESEARCHER: A lot of people venture the opinion that tenure is only valuable to those people who are not doing a good job.

TURNER: I see what they mean. Well, yes. Really good ones don't need it.

RESEARCHER: That's correct. The really good ones, conscientious in what they say and do, don't need it. The only people who are protected by tenure are those who really need to be protected by something.

TURNER: I guess there's a lot of truth in that.

RESEARCHER: If that is true, then it seems to me there is some danger in giving academic freedom to an individual who has to be protected by tenure and only holds his job because of it.

TURNER: I'll let you work that one out. It's dangerous for an administrator to answer that.

RESEARCHER: The reason that is important to me is this. I'm taking a long-range point of view in saying that it is not possible for Lynchburg College or any other college to control its finances on an annual basis. The annual budget is committed and fixed by the time you "go to bat" with it. If you are going to control your expenditures, you've got to do it before you make a commitment to a new program that's going to require hiring faculty who get tenure and this sort of thing. And this is why I must look into this thing. I think the only value in asking Department Chairmen to prepare annual budgets is a matter of information to him. He can't control it, except expenditures for supplies or something like this. Of course, he can have some control over the additions to the faculty.

TURNER: Also whether or not you should replace someone who retires.

RESEARCHER: These are the places we ought to be watching, it seems to me. It is not so much, if we are going to do what we did last year, with the same people, but are you thinking about adding somebody. There's a lot of "soul-searching" involved.

TURNER: I hope you will tell the faculty chairmen that.

RESEARCHER: One more thing. How do you see the role of the faculty, dean, president, trustees in decision-making as it concerns curriculum matters or academic policies? What is the faculty role for instance?

TURNER: The faculty has an important role in it. I think the faculty is charged with responsibility for the quality of the academic program of the college. The Board is content pretty largely to leave it up to the faculty. If you try to analyze the way it actually operates; an executive, administrator, whether he is president or dean or department head, can have a tremendous effect on it by introducing certain ideas, sponsoring them, pulling for them and maybe even politicking for them so that when the idea comes up in a committee, it gets acceptance and goes to the general faculty. The faculty is a large group and like any other group, all the members of it don't always feel that they know any more than Congress knows, when a bill comes up. They tend to say, "well, the people in that department feel so strongly that the proposal is a good thing, probably we ought to go on with it," and they approve it. What I'm saying is the faculty as a group doesn't always make a decision. It may have in effect been made by the smaller group who proposed it unless the faculty were dead set against it.

RESEARCHER: It looks to me like the role of the faculty is a constraining role. I developed the MBA program but that didn't go through the full faculty. I don't know why it didn't though. It seems to me that it certainly should have. A course change of some sort goes to the faculty. We will recommend this course to the curriculum committee who takes it to the faculty. What we try to do, of course, is go as far as we think

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the faculty will let us. We try to second guess the faculty and I would suspect that practically every department chairman does this.

TURNER: You think of what will happen at the faculty meetings and there are highly critical individuals who are going to ask searching questions. You know you've got to have answers for most of them. It is a critical or constraining influence on the part of the faculty.

RESEARCHER: It seems to me that this leads to another observation that somebody made concerning higher education. Practically all of the innovations have come from the administrative side rather than the faculty. We are getting to the reasons behind this when we acknowledge that the faculty represents a constraining influence more than it does innovative influence.

TURNER: Of course some faculty members do come up with programs which they promote. Now if you consider the department chairman an administrator, there is more truth to your statement. Take our introduction of laboratory psychology. That grew out of the psychology department. The change didn't originate with me, it didn't originate with the faculty, or the board, but it was from the department.

RESEARCHER: The graduate program did come from administration though. That was one of the biggest innovations we ever had. On the other hand I was probably exercising an administrative role when I introduced the MBA program.

TURNER: Department chairmen in a college our size have many roles. Not many years ago I used to teach part-time while I was dean. The department chairmen are now in a position where they are administrators as well as teachers.

RESEARCHER: Of course, Ruml, in his book Memo to a Trustee, takes the position that faculty shouldn't have anything to do with educational policy or curriculum matters. He says each of the faculty members is a professional in some discipline but this doesn't necessarily qualify the faculty as a body to make decisions concerning the total program. His idea is that the trustees should make this decision.[9]

TURNER: He ignores the fact that faculty members in addition to being experts in their fields have also a general appreciation of the world of education, the liberal arts. No, I think they should have a say on these things, very definitely. Whereas trustees, many of them, have this appreciation too, but they also think of themselves as primarily responsible for undergirding college finances, seeing to it that business relationships of the college are kept on even keel, we don't go too much in debt and all that sort of thing. I don't see that the trustees are any more capable of critical judgment regarding the course that the curriculum should follow than faculty.

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[9] See Chapter II, p.

RESEARCHER: How can trustees have effective control of finances unless they have a pretty definite voice in academic matters?

TURNER: That's a hard question. They can't ideally. I suppose you can get the two groups working together so that they both understand all of the ultimate needs or the decisions adopted by either one. On the other hand, how can faculty get along unless they know about the financial structure?

The trustees are busy men and they don't have full time to devote to the college and a study of its program with all the intricacies of the program. Many of them are on other boards in business organizations; some of them are on other college boards. It would almost be a full-time job for them to gain the understanding to make educational policy. The faculty members are full-time members of the academic unit; they see their colleagues every day (some of them at least), fell the influences of what is happening on campus. They don't always understand all of the difficulties of the financial undergirding of things they propose, but they are better equipped to initiate academic programs.

RESEARCHER: Is there an Educational Policy Committee of the trustees?

TURNER: Yes, there is. I meet with them once a year before the mid-year meeting of the Board. I must say that every now and then a member, or sometimes the chairman, will express to me ahead of time the feeling of frustration or futility that they really aren't doing anything.

They approve or question the sabbatical leave proposals, but usually we know ahead of time what they will approve and we advise the submitting faculty member that we know his plan won't go through and suggest he come back with something else. Very seldom do they ever say no to a program. Sometimes they will discuss it, if a big problem like academic freedom or something comes up. I mentioned to the Educational Policy Committee this year that we have constituted a faculty Curriculum Study Committee and suggested that we could have a joint committee meeting sometime. They thought it was a fine idea. So when the Curriculum Study Committee gets some really definite proposals, maybe we will ask the Educational Policy Committee to meet with us to discuss them. They will probably say, "Well, you folks are in this business all the time. You know the needs and we don't." They will probably tend to go along with us. But, if we came up with something about abolishing the religion requirement, they might say something about that since it would be strange to be doing it. If we said, "let's not try to teach English anymore," they might get alarmed about that. But as long as they have a feeling that the faculty committee on curriculum is pretty responsible and professional in its work, they don't say too much.

RESEARCHER: That leads me into the Curriculum Study Committee that we have organized. They are wrestling now about this question of objectives.

The Faculty Committee is concerned about the objectives of Lynchburg College. Why isn't this a trustee function?

TURNER: I think it is. I think this Committee ought to come to the trustees with their proposals regarding objectives and let the trustees wrestle with it.

RESEARCHER: But don't you think also that we must have the Curriculum Study Committee accept what is stated concerning objectives now since this is in the Charter and has been ratified by the trustees several times over the last 65 years. The institution was established on this basis. We entered it in our catalogue. Do you think it is a function of the faculty committee to try to change this?

TURNER: Well, institutions are established with certain goals that are in the minds of founders, of early boards and early faculties. But conditions of life change, conditions in which the college finds itself maintaining its existence. Frequently the stated goals remain just the same but the actual goals change. Should you revise your actual statement to agree with your actual goals, there would be changes to some extent, it seems to me. I think that certainly through the years enough changes have probably occurred so that if you want an accurate statement of your goals, it would take some revision of the statement you had 50 years ago.

RESEARCHER: Then you are saying that the faculty has some responsibilities toward initiating changes in objectives that will be presented to trustees.

TURNER: I think so, absolutely. You said you read Dr. Wake's History. Have you run into the part where he tells about the crisis that developed here around 1924-25?[10] Actually the College had to decide then whether it was going to be a Bible College of fundamentalist type or whether it was going to be a liberal arts college. Well, who decided that? That was a crisis precipitated by conditions, developments. The institution was growing, part of the constituency was going one way, part of it another. I don't know who finally decided, who really decided. The faculty had a part in it. Some of the faculty members definitely felt it ought to go the other way. The faculty had a part, the president had a part, the dean; and the board of trustees finally had to vote. What influenced their vote, I don't believe is fully known today. I was just beginning as a student in 1925 and I didn't know what was going on in that regard. That's an example of a development which is partly social, partly religious, partly educational in nature. It is certain that everyone at the college had some voice in that decision.

RESEARCHER: Well, let me approach the question another way just to make sure we cover it. The college has objectives, broadly stated as they are. It seems to me that we ought to also recognize that individual faculty members have objectives, too; in their own personal lives and their professional lives. When we hire them, are we under some kind of obligation to be sure these two objectives at least will not get in the way of one another?

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[10] Wake, "The First Fifty Years," _op_. _cit_., p. 184-185.

TURNER: I think we try to do that. Maybe we should devise other ways to be sure about it. We try to tell them a little about what the college is like so they can see whether they would want to identify themselves with this type of institution. Some of them nowadays ask very searching questions about private colleges and their chances to survive. You can tell what they are getting at. They have read Time magazine, Fortune and the others and they wonder if they should get on a supposedly sinking ship.

RESEARCHER: You are saying that we tell them what the college's objectives are. I suppose we make some attempt also to find out what their objectives are. Once we have told them ours, do you think they are under any kind of obligation to try to live by the college's objectives, to conduct their courses and professional lives as a matter of obligation to those objectives?

TURNER: I think so. Yes. I think they are all under obligations. For instance, if a man says even though this is an undergraduate college, I believe in pitching my courses for graduate students and I'm going to require that level of attainment, he couldn't last. The strain in his courses would be such that undergraduates with their immaturity and their emotional problems, just wouldn't be able to make it. He would soon find that he was out of students. When you are out of students, you are out of a job in this college.

RESEARCHER: Now, can we talk about institutional mission and opposing it by academic freedom?

TURNER: We didn't say all that is to be said on academic freedom though. To begin with, no kind of freedom is absolute freedom to do anything you want; --at least no freedom that I know about in civilized life. There are certain limits, certain constraints on any type of freedom. "The land of the free and the home of the brave" --but how free are you in the land of the free? You are never completely free. It doesn't mean that a teacher can be completely irresponsible about what he says or the way he acts. I don't think there is any such freedom. I don't think a businessman has it, I don't think the citizen has it. If faculty members don't have reasonably good judgment about what is good for the institution or what's good for the profession, they don't last long. That may sound awfully illiberal, but isn't it true?

RESEARCHER: Yes, I think so. I think it does represent the approach here at the College. The fellow we had over in Psychology last year is a good example of a professor who abused his freedom.

TURNER: If we have to buy up the contract of a man like that we do it and then let him go on his way. I can name other instances: one fellow forced himself out of a job simply because of his personality and what he considered hard standards. The students called them impossible standards that went along with an unpleasant way of imposing them. He came up with no students. And when you do that, in a matter of a couple of years, you just don't have a job anymore. I don't think the AAUP can defend that. I don't think they would try.

I can think of another fellow years ago who was in Economics and turned out to be a communist. I wasn't in this office then. The college didn't know he was a communist when they employed him. He carried it to such an extent--he was a pretty good teacher, stimulating, in a way--that he would not pay his bills to Guggenheimer's. They were just lousy capitalists, he said. He wouldn't pay his bills in the city and finally the city put such pressure on the administration, it just couldn't go on. These things happen. You wouldn't think that a professional college teacher would take those views.

If these views seem conservative, please remember that I have given three instances out of thirty-five year's experience. I could have added a few others involving moral turpitude. But in each of those thirty-five years, I could have given from fifty to a hundred instances of faculty members who used their freedom wisely.

Let me say one more thing about academic freedom. To me academic freedom is this. We say to a faculty member that we assume you are a high type professional person, you use good judgment. We want you to get in here and feel that we are not going to be spying on you every minute to see whether you met your classes regularly or on time or if you are a few minutes late. We aren't going to be looking over your shoulders for details that the dean doesn't agree with or the president doesn't agree with. We don't breathe down people's necks. In other words, these are professional people. Sometimes they will vote down something that I propose in a faculty meeting. It is nothing against anybody to do this. Sometimes they will vote down something the president wants. All this is freedom. This applies in religious beliefs, in political beliefs, and economic beliefs. We assume that they will use judgment in what they do, they won't be "riding hobby horses" in class day after day when they have nothing to do with the subject they are teaching, they won't be riding certain ideas into the ground; they won't be rubbing salt in the wounds of people in the city. All these things would be really unreasonable and imprudent. Admittedly, some of the great innovators in the history of the world couldn't hold a job in a faculty. In the same way, Jesus couldn't hold a pulpit in America for six months.

RESEARCHER: You mentioned religious freedom, political freedom and economic freedom. But none of them have the protection of tenure. Academic freedom does. Why is it necessary that academic freedom require a protector in the form of tenure?

TURNER: It must be that there have been illiberal administrators in the past who have caused faculty members to organize to withstand this sort of thing. In the field of industry and labor, the labor movement developed because laborers weren't getting a square deal or thought they weren't. But I regret, too, that this thing had to develop in the university and college life the way it has. I don't think they need tenure at Lynchburg College really --the official type of tenure, that is. I think one good proof of it is the AAUP Chapter here doesn't have an enthusiastic organization. The only way they could get one would be for the administration to take some action to cause a reaction. As it is, what they do is perform a limited function. They do some good things and have good programs. I don't see that we really need it around here.

RESEARCHER: Really, what you are saying here is that we don't need an AAUP. If I read it correctly, you are saying that it is a union.

TURNER: It has some of the aspects of a union.

RESEARCHER: I think it is a union of highly intelligent professional people. It doesn't have all of the distasteful qualities of the labor union.

It does seem to me to come out being a union though.

TURNER: In a sense it is because when they take a case and take it to the national committees in their organization and put a college on the black list, it is really pretty serious business.

APPENDIX A-3

EXERPTS FROM INTERVIEW WITH T. A. BERGMAN
VICE PRESIDENT FOR BUSINESS AFFAIRS
LYNCHBURG COLLEGE

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RESEARCHER: What is the debt capacity of Lynchburg College and how do you determine it?

BERGMAN: There is no scientific approach to it here as there is in industry. A company would adopt some ratio of Liabilities to Assets as a safety factor for the creditors and to insure that, in case of liquidation, there could be realized a sufficient amount to repay the creditors. Then, too, a business tries to see that it has sufficient profit to make the annual repayment schedule. Both of these serve to determine the debt capacity for a business.

For a college, however, there is a serious question as to whether or not a ratio of Liabilities to Assets is a valid safety factor. For instance, can a college contemplate liquidation? In addition, there are no stockholders to whom creditors can look as a cushion for their security. In other words, there is no legal capital, only "fund balances" that may fluctuate as the college deems appropriate. This, of course, makes it somewhat difficult for a college to obtain long-term credit. More so than for a business, theoretically. So the debt capacity factor is to a large degree set by what creditors are willing to lend.

Now the other factor, the ability to repay long-term debt (and to fund capital additions) from current excess of revenue over expenses, does act as a restraint on debt capacity. Actually, most banks in lending to colleges, churches, etc. look to the alumni funds or to the congregation's ability to repay the debt, and to the stability of income derived from these people. At Lynchburg College we have been able to generate a considerable amount of money through the "auxiliary enterprises" for debt repayment and capital additions. However, we have raised our charges as high as we can, it seems to me, so that as costs continue to rise and as the dormitories that are filled at the beginning of the year develop unfilled space during the year, our available margin is going to become smaller and smaller.

RESEARCHER: What, then are the risks to a college from its financial program?

BERGMAN: Well, certainly excessive debt can result in prolonged demands which may mean that current revenue is not sufficient to pay current expenses and retire indebtedness also. When this happens, most private colleges follow the practice of initiating special campaigns "to pay off the debt." Today, a lot of people are talking about the increasing difficulty for successful campaigns in face of the large sums colleges are procuring from federal sources, and none for debt retirement.

If you assume that a college could not repay its debt from current funds and it could not raise necessary funds in a campaign, then you might say that there is the risk of having to liquidate without a ready market for a college or college property. Perhaps the State of Virginia represents our best market. That's how Frederick College was liquidated. It was donated to the state. Selling to the state might be a different question. By this I mean if we sold the college, the Charter requires that all assets be used for educational purposes so we would have to keep any sale proceeds in excess of liabilities employed in some other educational institution. We could give it to one of the other schools related to the Disciples but we certainly are not required to. In a sense we might as well donate the college to the state system and let them pay off the debt if they are willing. Of course, with a budget that is almost totally "fixed," there is always a danger that it can't be reduced if a substantial decline in revenue was to occur. We have to be careful that we don't add to our budget faster than our income will allow.

RESEARCHER: When large amounts of money become available to the college, how do you decide on the best use for it?

BERGMAN: As you know, we have the "Partnership for Progress" Program going now and this does spell out the use for all gifts received. An example of what happens without such a development program is the gift from the Knight Estate about 1953. We received almost $600,000 with no plan existing for the use of it. At that time, as I understand it, President Wake called the Executive Committee together and asked for a discussion and decision. The decision recommended to the Board, and adopted, was to spend part for the Knight Library and the rest added to the endowment. If President Brewer had been here then, he would have gone to the Executive Committee with a program for the use of the money and asked for approval. So I would say that the type of chief administrator plays the major role in determining the use of funds. The relative forcefulness of the President is a very important factor in the use of resources for the program of the College.

RESEARCHER: What role should the faculty play in building plans and the allocation of resources?

BERGMAN: Certainly they should be asked to advise on the needs for a particular building of an academic nature after the commitment to the building has been made by the Trustees. For example, we had a faculty committee advise us about the design of the proposed Fine Arts Building, but they were not in on the original decision to build it.

RESEARCHER: In determining the capacity of the college to handle students, I have determined our dormitory and dining capacity, but to determine teaching capacity I used the smaller of classroom size or the instructor's attitude concerning class size. Do you think this is a reasonable method of determining the college's capacity?

BERGMAN: The capacity as to dormitory and dining room is reasonably good, but you must remember that we are increasing this capacity from about 800 students to over 1200 when the second girls' dormitory is complete. In the past we have been able to house some students off campus in the beginning of the year and, as openings occurred in the dormitories, move these students back on campus. I doubt that we will have this kind of reserve to draw on to keep 1200 beds filled. I am planning to use 90% capacity as suggested by the federal government in projecting dormitory needs whereas in the past we have always kept the dormitories filled to 100% capacity.

The teaching capacity figure is more nebulous, but it is at least a figure that can be used for planning. There are certain assumptions that your approach implies though. It suggests that we intend to continue the same class scheduling procedure, the same size faculty, the same number of course offerings, same number of students, and the same classroom facilities. Actually, all of these assumptions are correct except that we will have additional classroom space in the Fine Arts Building and in the new Health and Physical Education Building. We also have plans near the end of the 10 Year Development Program for a new academic building. This means that with the same size faculty and student body we will have excess capacity even to a greater degree than we have now. Before the Community College was located in Lynchburg, we were able to attract a number of "day" students. Some think that we will still get a large number in the junior and senior years, but we must remember that the state universities also have available capacity in their junior and senior years and they offer it considerably cheaper than we do. Planning the capacity of a college calls for a balance between number of students, faculty, classroom space, dormitory rooms, dining hall facilities, library and other lesser factors.

APPENDIX B-1
INTERVIEW WITH PRESIDENT ELMER JAGOW
HIRAM COLLEGE
HIRAM, OHIO

RESEARCHER: Hiram is a private college. Would you mind explaining to me a little about your church connection at this point. I know in the past it was connected with the Disciples of Christ. Is it now?

JAGOW: Yes, I think Lynchburg College is too. Hiram College started in 1850 and was founded by men who were of the Disciples persuasion. The College has always had its own self-perpetuating Board of Trustees and has never had the church identify members of the board or prescribe numbers of people, etc. The college has through the years, with varying emphasis, identified itself with the church. I am told that in the late 1930's there was a move to play that down. We feel at this point that there is an advantage with very little disadvantage for the college in identifying with the church. We have moved in the direction of reestablishing our contact with the Disciples organization. I'm not a member of the Disciples church which I think is informatively important to you because it suggests that the college's contact, like most of the other Disciples colleges, is probably somewhat more independent of the church than other denominational colleges. I think it is also true and

I think I can say this with objectivity, that Hiram is probably academically one of the stronger of the colleges of the Disciples federation. Consequently, we have been more selective, particularly with reference to the Disciple students and children of Disciple parents, causing some people to be critical of the college.

For a long time Hiram had 24 trustees, self-perpetuating and elected for 7 year terms. In 1965 the by-laws were revised in order to provide for 36 trustees. The reason for this was there were a number of people on the board of trustees as associate trustees; in other words, beyond the number of 24. This was sort of a second-rate status which was corrected so that all of them were either trustees or not. There are now 31 of the spots filled. Only one of these people is a minister. He happens to be the Executive Secretary of the Ohio Society. He's not on there necessarily by any order of the church. This has just been a courtesy nod in the direction of the church.

RESEARCHER: You have no requirement then by the church that a certain number of your trustees be Disciples?

JAGOW: Organizationally we are not tied in at all. It is a voluntary affiliation by the college which can be severed just by our saying so. In other words there is not control; there is nobody owning the assets except the college.

RESEARCHER: That's very much identical to Lynchburg College.

JAGOW: We feel that there is an advantage to the college in that it gives us a ready-made market for students. We have been assigned to the churches in Michigan and Ohio as places where we can promote within the Disciple congregation. We participate in the "Unified Promotion." We get about $40,000 a year--1% of our operating budget. You can see that that isn't a great amount. The Disciples Churches, by whatever value standards you make, are probably not heavy supporters of their schools of higher education partly because the schools do not relate that closely. They support the ministerial schools obviously. We are a liberal arts college and intend to stay that way. We have produced in a general way people who have gone into professional vocations but this is not a major focus of ours. But it works fine. We have about 200 out of 1100 who are from Disciple families. We have some of the academically good ones. When I say this, I mean other schools in Ohio. I don't know that much about Lynchburg. I mean you work in a different market. Hiram is regarded as a very selective college.

RESEARCHER: I don't know what Lynchburg has been assigned in the constituency of the church, but we do get most of our students from the southeast and particularly from Florida. Let me ask you this. What is the school's attitude now about federal funds?

JAGOW: We have always participated in federal funds. We have had housing loans. We have had them on two or three dormitories. We have not qualified up to now for Title I grants for federal facilities partly because in Ohio the competition for these grants is pretty severe. Our non-participation is not due to any point of view; it's just a matter of qualifying. A college like ours when we're competing with Kent State and Ohio State has trouble getting enough points.

RESEARCHER: You have a community college system in Ohio that is quite extensive, don't you?

JAGOW: Oh, yes. Well, we have the State Board of Regents covering the so-called state universities--Ohio State, Ohio University, Kent, Bowling Green, Miami, Akron and Cincinnati. Some of these have branches; I think most of them do. But in addition to that, we have community colleges. There are about 3 community colleges in the Cleveland area. A strong rapidly-expanding university does make a difference because we do have about half of our students coming from Ohio and the other half generally from the areas east of Ohio. We are not very strong west of Ohio.

RESEARCHER: As far as enrollment is concerned, what is the effect of this state system?

JAGOW: Eight years ago our enrollment was 500, now it is 1100. It is about double. The community colleges don't really compete with us. In a sense their enrollment is largely people who for whatever reason, economic in most cases, have a choice of not going to college or going to community colleges. We are in the dormitory business and therefore our market is really among the people who can afford to go to college and who go to college away from home. We do offer some scholarships.

RESEARCHER: I suspect all of your students live on campus.

JAGOW: Virtually, yes. Less than 100 are what we call commuters who live in the area. We have some students from Cleveland 35 miles away. Then we have some faculty who live in Cleveland. I think the program of the college is oriented toward a dormitory set-up, and they feel they miss a lot of what we have by being off campus.

RESEARCHER: Do you have any plans to go beyond this undergraduate dormitory or residence college that you are now?

JAGOW: I think at the present time, if you look five years ahead, we will probably remain with an undergraduate curriculum partly because we are able to do that fairly well. We see no particular reason, with graduate programs being as close as they are around us to move into a graduate program partly because of the cost of operating them well is pretty high. Kent State is right here with programs, including Ph.D. programs, 17 or 18 miles away. But our enrollment definitely is to be increased because we are not dealing now with an optimum economic number. We have too rich a faculty operation for the amount of student income we take in.

RESEARCHER: You have something like 80 faculty members and about 1100 students, so you have a pretty good ratio.

JAGOW: We are about 13 to 1. We were 12.5 to 1 last year. Let me give you a little background. I came here in September, 1966. It will be two years this September. My background is a management not an "academic" background. That is really a misnomer because I've been in college administration nearly all my life. I've been in this business for 23 years so some of it is bound to rub off. What is academic and what isn't? I don't have a Ph.D. in a scholarly field. I don't think this has been a disadvantage. I think as a matter of fact my training in management is a decided advantage, and it is probably the reason for Hiram College hiring me from Knox College where I served as Vice President for Finance before coming here. I had a very desirable position which was well compensated. We had everything going for us, a delightful setting in which to operate; there wasn't any reason in the world to leave it. As a matter of fact, when we moved to Hiram, I really had no increase in salary but it was an adequate salary so money wasn't the attractive thing. I thought there was an administrative challenge here. This school was good academically and probably relatively weaker administratively. I had much latitude and many opportunities for challenges at Knox since the president there was away a great deal of the time. Much of the resident operation we actually provided. Here was a chance to sort of do it on your own and see if it really worked. I had done so much work for the Ford Foundation and with other programs in national training on the theory that college presidents typically are poorly prepared for their jobs. They might be well prepared academically, but they find themselves so often in spots where decisions are required which are alien to their previous experience or training.

Therefore in visiting with the Hiram people, we tried to make this quite clear and tell them that if my approach was what they wanted, then we might be interested in tackling it. So here we are.

We did the original long-range plan, the "Ashford College Case Study," which you probably know is Knox College. It is our own material at Knox.

RESEARCHER: What was the name of that case study?

JAGOW: "Ashford College Case Study." It's published by the Ford Foundation. It was really published under the bylines of Sydney G. Tickton. All this has been published as a part of the Dexter Keezer book on financing higher education from 1960 to 1970, then was republished separately as "Needed: A 10-Year College Budget." Then we did a thing called "Letters to a College President." These are available through the Academy for Institutional Development with which I have worked a couple of times. It is headed by Sydney Tickton, 1424 Sixteenth Street, N.W., Washington, D.C. I worked with them out of Colorado, out of New York and now more recently out of Washington.

I wanted you to have that background. One of the things that has happened is that people have been anxious and sort of on the edge of their chairs saying, "When are you going to crank out a 10 year program for Hiram?" I purposely held back, I felt that we had to have a readiness because this is something completely foreign to their operation here at the college. And so we are making some administrative changes, moving people around, getting people into the proper slots. We have done that now rather completely. We have made changes in just about all our major spots, except the dean of the college, within the last year and a half. We beefed up our Development Program, retired people that were successful in the sense that we are now ready, I think, to really move and do the actual projection. I feel strongly that unless the faculty is a part of this, it is not going to really work. You just can't do this by administrative imposition. Some things have to develop and come up through the faculty. We are engaged in the task here on a rather large scale faculty study which we call "Faculty Task Force for Curricula Revisions." I will give you a copy. This has not been adopted yet, but is being studied for adoption or slight revision by members of the faculty. One of the proposals is to create a much more flexible undergraduate collegiate experience with a minimum of graduation requirements. A Freshman Institute and the Freshman Lecture Course are also proposed. We will bring the freshmen and assign some 12 to a specific teacher for most of the freshman year. This is done in order to put our focus on the small college picture. Small colleges have to be careful that they don't just mimic the big schools and then not do it as well. The fact that you offer instruction under shade trees doesn't necessarily make it good. But then we really have to see that we do give individual attention. We do it early in the college career rather than late. In other words, upper-level classes already have small groups. We have too many large groups in the freshman and sophomore years.

RESEARCHER: The objective is then to pursue small classes in all four years?

JAGOW: That's right, in a way. We have to be very careful though. This is where the change comes in terms of what we call the Jagow administration. We can't be doing things we would like to do or things to indulge ourselves in academically if we can't afford them. We have to be able to afford ourselves. We have to do that in two ways. One is that we control our expenditures. The other one is managing our income in such a way as to provide for a stable and solvent fiscal operation. It has been with this thought in mind that we have tried to approach the academic work of the college on the basis that well-managed colleges are stronger academically, not weaker, and that the members of the faculty are better off if they have a good management as well as a good teaching faculty. The other thing is that I did all my graduate work in management on the business side. I am a graduate of Northwestern where we did not have educational administration and I purposely avoided it and did all my management work on the business side. I think the college has been able to identify with business much more successfully than in the past.

RESEARCHER: Let's go into some specifics about objectives. You don't see graduate education within the next five years you say? What about additional undergraduate programs?

JAGOW: We have no doubt that there will be some. This has not really been discussed at Hiram, but I think we will probably do a little more in the area of business courses than we have done in the past partly because we will need to for successful survival. We do our biggest work in teacher education. We are strongly oriented toward graduate school and measure our success, and the faculty, by how many students get graduate fellowships.

RESEARCHER: You have very little professional orientation in the undergraduate program.

JAGOW: Except for teachers.

RESEARCHER: I mean in the liberal arts program. Your catalog makes a strong point of this.

JAGOW: I'd say also that you can accept the catalog as an honest appraisal of the college. It describes the college pretty accurately which is not true of many colleges. You can pretty well believe what is in it. I feel the chance of being able to substantiate it to a visitor on the campus would be pretty good.

RESEARCHER: You plan then to make some changes which are of the evolutionary type rather than revolutionary?

JAGOW: The strength of the college is in its excellent faculty. It has a relatively well balanced one. I think there is a market for this sort of program. What we need to do is to make business less of an ogre to us than it has been in the past. And the only reason we are not going into major graduate program in business or in any other area is that we just can't afford it. We have some good graduate programs around us, and we ought to specialize in that part of the market in which we can do well and in which we can attract a sufficient number of students.

RESEARCHER: Right, I think this is one of the distinguishing characteristics between you and Lynchburg College. We are the only major college, other than two women's colleges, in a metropolitan area of 130,000 to 140,000. The area is highly industrial so we can put in an M.B.A. program and get away with it. Here you are surrounded almost by graduate programs.

JAGOW: We have one third of all the people in the state of Ohio living within 50 miles of Hiram. We are in the heavily populated northeastern Ohio area.

RESEARCHER: A third of all the people in Ohio live within 50 miles of Hiram?

JAGOW: It's very interesting. You include Cleveland, Akron, Canton, Youngstown, Erie and a lot of other little towns. We are a very strategically located college. In the past the college has sat here on this hill with its light under a bushel and said if you come to us, we will teach you. It hasn't really reached out. I think this is part of what we are trying to do. It will take some building before we really get going.

RESEARCHER: Do you normally have a considerably larger number of applicants than you take?

JAGOW: We have about 1,000 applicants for admission. This year it's down in the 800 or 900 group. We take about 600 and will enroll about 325 this year. In other words we offer admission to between 500 and 600 and those who actually enroll will be about 325. Most private colleges in this area are down in applications, I'd say 10%. We try to select enough to be sure that our retention stays up. We are going to have the problem of insufficient housing this fall because we have had better retention than expected. This is partly because of the draft. The college has had good retention throughout the years. We don't lose a lot. We are making some studies on this as to why.

RESEARCHER: You talk about the strong faculty. I would assume then that you don't have any particular plans as to major changes here.

JAGOW: No. I think the changes will be as outlined by the "Task Force" which is to utilize our present faculty. We are going to do more with interdisciplinary work and more of the strategic work that has to do with crossing departmental lines, but we are not going to add a whole school or a whole division. You have to put a whole lot of money into faculty before you can expect any income. We have a good faculty. We are not capitalizing on the qualities that we already have. We must do that first and then build up. Ours is a good teaching faculty. Our percentage of Ph.D.'s is about 48 to 50%.

RESEARCHER: That's good for a small college.

JAGOW: I came from a college where we had 80% so I don't think that it is good as it could be. Let's say that it is not bad. We have a number of people who don't have their doctorates who are ABD, all but dissertation, and we have a number of people who are excellent practicing people who will probably never get their Ph.D. I think a percentage analysis of our faculty would be slightly unfair however because of teaching qualities. We have done quite a lot of screening and weeding out in the last couple of years, too. There wasn't much necessary but it was accomplished. So we have pruned our faculty a little bit.

RESEARCHER: While we are on this subject, can we talk about tenure? How does tenure apply at Hiram?

JAGOW: We have the typical AAUP tenure policy. You come here for six years and in the seventh year you either get it or else not. We have moved some people off the faculty with terminal appointments; two or three in the last two years in order not to get into the tenure box. I think this is one of the most expensive decisions that management makes. I'd say it is between a

$400,000 and $500,000 decision because you are really locked in after you've made it. If you have tenure, it is another reason why you can't move faculty just like you can in business.

RESEARCHER: This is one of the real glaring differences that I have come up with between business and higher education; that basically your only control on expenditures in higher education is a long-range program. You can't do it with a year-to-year annual budgeting approach.

JAGOW: And that's of course the things that colleges usually do worry about; one year budgets. Looking ahead I've been more concerned about the long-range implications than the short range. In other words, what is the long-range attraction to Hiram for a prospective student. For instance we are replacing an old classroom building (Old Main) with a brand new classroom building. It is the result of a gift from one of our trustees of $1 million and on the top of the building we are putting a "management center" with the president's office, the board of trustees' room, and the dean's office; just to say that management is an important feature on this campus. We rate fairly well on the AAUP Salary Scale. We have this year all B's and A's so we are attractive, and we want to be attractive. We also have to have the quality people that deserve that kind of rating.

RESEARCHER: You are involved in some building projects, right? Can you tell me something about the five-year plans for these?

JAGOW: Again, we don't have at this point all of these things spelled out. I could have told you at six month intervals at Knox exactly when we were going to be doing things. We have not jelled it that far here partly because we don't want to get our "carts before the horses." I'd say that the curriculum and the program we have must dictate how we respond with buildings and administration. Under construction now is the Kennedy Student Center, which will be a student union facility. It will have dining and club rooms, etc. With an isolated community like Hiram, it is much needed. It was long in the planning. As a matter of fact it was planned about three years before I got here. Then we will be building, not as a new facility but as a replacement, the new classroom building/faculty office complex. At that point our facilities will be fairly well situated with the exception of our theatre and our art department. Another academic building that we are planning is a replacement of our art studios which are in the old classroom building and should go into a new building. We will build an art building probably and a theatre because we have a strong college theatre program here with very limited facilities. Every time we have a concert, a band, a chorus, a lecture or a speech presentation, the theatre department has to work around them. It's just impossible. So we need something for them and we have those in sight. So that's all right. We have projected ourselves at this point now to an enrollment of about 1800. We will have to add some additional facilities in terms of housing and possibly some in connection with food service, but I predicted that our enrollment will have to grow and without necessarily building more "single student" dormitories. The college of the future will not be as residential as it is now. People come to it without having to live in its own "straight-laced" and "straight-jacketed" facilities. One of the problems that colleges are running into is due to the fact that we consolidate so much student activity in one location and we force them to turn the campus into home, not that it ought to be. I don't subscribe to the idea that a college dormitory ought to be like home. I claim after all that if it were like home that's where they ought to be. It's a learning operation, so not all the rules that apply at home apply here and not all the privileges. So I see us growing without necessarily expanding dormitory space on a 1 to 1 basis. I think more students will be living in apartments and homes, even single students, more so than they are now. That way we can get the community to participate and private enterprise and industry to add some of the housing that we need.

RESEARCHER: 1500 to 1800 is your ultimate projection?

JAGOW: 1800 at this point is the estimate. Now I learned something when I was at Knox. That is, when you say so much about where you are going, and we talked about 1250 at a point when the college was about 600 or 700, it becomes a fixed number because it was so often repeated. So I would like to think about it more in terms of rate of growth. How can we provide our program with stability of a rate growth and stay relatively valid?

RESEARCHER: Washington and Lee talks in terms of growth of 2% per year. I think that's probably the same idea you are suggesting.

JAGOW: Yes, with our present faculty we need to do several things. We need to adjust our student-faculty ratio therefore to at least 15 to 1, more like 18 to 1. In order to do that, we have to add students at a faster rate than we add faculty. We also must have a willingness by the faculty to do this and for them to see demonstratively that this can be done and be in their self-interest as well. If you just inundate them with a whole pile of extra people, it won't work because when you talk about a larger student faculty ratio, it is often interpreted as being the corollary of how many people do I have to teach. When you come right down to it, it's the paper work that burdens faculty. Therefore we have to find a way that will require less paper work.

RESEARCHER: Do you use student graders?

JAGOW: Not to any great extent.

RESEARCHER: What about financial policy? You have some ideas about finances since you are using federal money.

JAGOW: We use National Defense Loans, the Work Study Program, EOG money. We would like to use grants and loans on our academic buildings. The new classroom building will be built completely out of private gifts. A trustee is giving us a million dollars. The Student Center is financed partly by a $750,000 gift from a man and his wife. The million dollar gift is just in the process now and if they give us enough money then we don't have to qualify for a federal loan and that's what we're trying to avoid. One of the things we need to do is stabilize the college financial picture. We need to make sure that the debt service against us is not too large. I'm willing to go into debt for the future, but you've got to be able to afford yourself again. You can't get yourself into a large annual debt service program which strain current funds.

RESEARCHER: Before I ask unnecessary questions, how much information am I going to be able to get from financial reports and records?

JAGOW: We will give you an annual report and a copy of the current budget. I guess those would be the two principle documents.

RESEARCHER: That would be excellent. Most of these questions are generalities when for instance you talk about debt service. One of the interesting questions I have in my analogy with industry is, "What do you consider to be your debt capacity and how do you determine it in higher education?"

JAGOW: I don't know if it has ever really been determined except that I feel that we have to be careful; we have to remember that the modern day academician cannot recall a depression and looks for an ever-expanding economy. Few of them remember what life was like in the 1930's. While I am a firm believer that inflation is here to stay and we will continue to accelerate, I am also concerned about certain short-run adjustments. I have done enough consulting work with colleges to find out that these colleges, like Parsons College, had a lot of good ideas but oversold some of them and became reckless, drunk with power financially so to speak. I don't know how well acquainted you are with the Parsons College set up.

RESEARCHER: Pretty well.

JAGOW: Well, here was a case of some financial irresponsibility. You never get a slump for just one year; let's say you get a slump for 3 to 5 years. For some reasons something happens that would make you very unattractive and, using Parsons as an example, this can really happen. In 24 months you can turn a college from a desirable to an undesirable one, especially where accreditation is involved. A college reputation is often based on non-academic grounds. If that should occur, you can change presidents; you can change your outlook and get some things going and this sort of thing. I think that is the so-called debt service limitation. What you do then I think is to determine in a real depressed setup how much borrowing power you have. I think a college is only worth its cash endowment, its liquid endowment, and the liquidated value of its buildings. Colleges aren't worth very much out on the market.

RESEARCHER: An interesting point.

JAGOW: So that's all. You don't have reputation, you don't have faculty caliber, you don't have student body or anything else to fall back on. Even a dormitory. What are you going to do with it? You can't move it. The only way you return its value is if somebody wants to buy it as a college. Churches are in a similar situation only not quite so much so. They can always make it into a meeting hall or somebody can buy it. A college is too big. The same price on even a small college would be substantial. Our assets are about $12 or $14 million dollars. Who has that kind of money to invest in this sort of property?

RESEARCHER: The state.

JAGOW: Well, that's right. The only satisfactory arrangement that I have seen has been when the state has taken over a faltering private college--bought it out. Or in one or two cases like Milwaukee where they sold to the state of Wisconsin for $10 million because they were perfectly located. You can give yourself away for a $1 maybe.

RESEARCHER: If you sell a college for $10 million say, who gets they money?

JAGOW: Downer College did a very interesting thing based on your kind of criteria. They gave themselves to Lawrence College and said if you will take us, we will give ourselves to you. We will give ourselves to you if you will retain the name and some of our legacies. So they are now called Lawrence University with all of the girls who are enrolled in Downer College and the men are enrolled in Lawrence College. Fortunately, they also have the Institute of Chemistry which is tangentially related. So they could call it a university. But that rarely happens. They had $3 million worth of endowment so Lawrence is richer by $3 million. They could have given away their campus for $1 but you have to sort of go out of business. If you merge like some colleges or give yourselves up to become a state university, all they will do normally is take over the debts. Since it is non-profit and nobody individually gets the benefit of it, what do you do? You just kind of say well it was fun while it lasted.

RESEARCHER: What you are saying is there is nobody to sell to?

JAGOW: There is no market for a used college and there is no market for bankrupt colleges; so you have to decide whether you can be successful, and in what market area can you be successful, or how can you go broke confidentally or in style? Is there a way? At what point can you give yourself away without losing too much? The third possibility is one that I don't want to share; that is limping along ineffectively. It's hard to kill a college. There is always somebody who will love it and they just drift and there's nothing worse. It's unfair to the students. So that's sort of my financial theory. The only thing you can borrow against is your endowment but you can pledge other assets as collateral to some extent.

RESEARCHER: That plus your ability to repay out of current funds.

JAGOW: Right, in a going operation. Education is here to stay. We have an advantage over industry because they are not so sure that tin roofs or mousetraps are going to stay. They might become technically obsolete. I think that colleges should face the fact that they could become technically obsolete in their particular form of education.

RESEARCHER: I think in certain segments of it this is very clearly a possibility.

JAGOW: The liberal arts college would be a good example. They have to be very careful that they don't become obsolete. I think the liberal arts college of the past is obsolete; therefore, we are moving in some directions that will become more relevant to the student of today. We have to indulge in the programs that students want, not just what faculty wants to teach.

RESEARCHER: That's why you are thinking in terms of business administration?

JAGOW: That's why I am thinking in terms of this "Task Force" particularly. This is why I think we can add to our solid base of enrollment. I have not discussed Business Administration at all with anybody. This is a bread and butter kind of thing to allow you to afford poetry or sociology, etc.

RESEARCHER: That's the way we view ourselves at Lynchburg.

JAGOW: You have to carry certain esoteric departments, right?

RESEARCHER: You've identified certain objectives, there might be others that you want to mention, I don't know whether we have covered them all or not. I see from your Task Force that you are bringing your faculty into the planning process and you say that this is a very important part of it.

JAGOW: I've had people say to me--this all sounds fine Jagow, but how do we spring this on our faculty. At this point I throw up my hands. You'll find that a faculty cannot accomplish a long-range plan, but it certainly can thwart it. You need their support to keep the minus values out. I feel that a good administrator provides "leadership." He also puts himself in a position of being pushed by people. I try to maneuver myself into a position where the Board of Trustees says, "You know we really have got to go ahead and do some of these things." Then it is their idea and not mine even though I have planted the seeds and kind of worked it out. Or I want the faculty to say, "Boy, you know we are going to have to do something to adjust our program to make sure that we get more applicants." One of our problems in admissions is to create a larger pool of applicants from which to select our students. Don't talk to us about quality students until we have more people applying than we want to take. Otherwise we have to take everybody that applies. We have to develop that sort of desirability. We have to develop cut-offs. You can't develop cut-offs unless you have a larger pool than your class needs.

RESEARCHER: You said you have expanded your development office.

JAGOW: We have not expanded it personnel-wise, but we have re-populated it. It was very casual, lackadaisical, poorly organized. Our alumni records were virtually non-existent. They were inaccurate. Fund raising was poorly guided and had not received good administrative support from the president's office because the president in the past didn't go out with the development director and call on prospects. There was lack of coordination. Generally, in church relations, alumni, public relations and publicity, we had all the people necessary but they didn't work together. Some of these people were reaching 65; the lines of organization were not clear. We now have a Director of Development, he has an Assistant Director of Development. We moved the Director of Alumni Affairs off to the side because his health, stamina and ability were not good enough. We had a fellow who was treasurer of the college who was more of a fund-raiser. He viewed himself not as a treasurer but as a fund raiser. He sold annuities and didn't do much of that. He was an independent operator. The previous Director of Development, Vice President of Development, was too weak a person administratively to hold these people in line, and he didn't get the support from the president's office where there was also weakness. Two of these people--the Director of Development left before I came here to accept a job at Allegheny, not that we wouldn't have gotten along together well. I think we would have. I put a real strong guy in there. We retired the Director of Alumni Affairs. We changed, actually let go, our Director of Public Relations. This fellow who was treasurer was 66, so we put him on the retirement shelf so to speak after a year of adjustment to part-time work. So now we are nice and clean and we have the thing running. We are really doing it with fewer people than we did before, but it is crisp, and we present ourselves to a high class clientele because that's part of our market. We have to run first-rate because that is the only way we can be attractive. We are too high priced to be second-rate. We charge $2635 next year for room and board and tuition. That's a lot of money. It's about $1735 tuition.

RESEARCHER: It's about three or four hundred dollars more than Lynchburg.

JAGOW: We're offering a high-priced product.

RESEARCHER: You are right, it is high-priced but again this is one of the similarities with industry. You can charge a high price for a quality product if it is recognizable.

JAGOW: Our job is to make sure we are giving our students their money's worth. That's more important than how much we are charging them. Did I answer your development question? It is a matter of streamlining, getting it running, putting out high class publications, etc. When you see Paul Sago ask him for a set of things that have been published recently.

RESEARCHER: Admissions. You said you are trying to develop a pool of applicants. What have you done to accomplish this?

JAGOW: It so happens that the fellow who has been the Director of Admissions is a real nice guy. He's been here for four years as Director of Admissions. He came from Franklin College where he was in Admissions work. As it happened he was very satisfactory. He is going back to Indiana University now to pursue his doctorate. This gave us an opportunity to repopulate that area and we got a fellow, it so happens, from North Carolina Wesleyan. He was a graduate of Ohio University. His father is on the staff of Ohio University; so he's acquainted with Ohio. We were looking for a guy who would be a recruiter. You can't recruit from behind a desk. You've got to get out. So what we tried to do is step up the sales activity. I use management terms in talking about admissions. This is part of the syndrome that I have tried to create on the basis that there is real similarity. Now let's take a look at how business would view this and whether we can use these same criteria in education. More often than not the answer is--well, we can. When the market gets tough, you don't lay off salesmen, right? We changed the Director of Admissions and have a new guy who is just starting the first of August. He is already giving slight "queasies" to the staff over there, because he has them scheduled out more than they ever have been before. We tried to add two people to our admissions staff. We will have five people on the road at this point. We have changed the fleet of leased cars. We have all new Ford Torinos, red cars with white stripes so it would be attractive to the high school senior. We have to talk his language. All of our people in Admissions are relatively young people. Our Director of Admissions is about 30 and all the others are less than that so we can relate. We have grouped ourselves with four other colleges in Ohio--Marietta, Hiedelberg, Muskingham, Mount Union and Hiram, and we have these five colleges working together in their admissions operation, particularly in new territory where we can work more cheaply and more effectively together than singly. We also have re-established a group called the Midwest College Conference, a group of about 8 or 10 schools, which goes a little farther west than we do here in an effort to promote the schools together. This also is intended to hit the eastern market--New York City, Connecticut--in which we participated some years ago. This will give us sort of a mass shot production. It also puts us in line to get our name in Time magazine, on radio and television spots, and things like this so we are picking up the pieces in efficient operation without sacrificing class. We have to keep a high-class point-of-view. We try to do this in our publications and in the way we present the college. It has generally been accepted. We have increasing numbers of students from the east.

RESEARCHER: I think you have a lot to attract them here.

JAGOW: On the admissions side also we have begun to involve more of our faculty. We have made up a whole series of departmental brochures putting our best foot forward. We have a biological research station and some research in physics, an activity which is attractive to students. Our stronger departments we really want to push. Attention on the campus to landscaping is also part of the admissions job.

RESEARCHER: While we are talking about research, what are your programs or plans in this area?

JAGOW: We are basically a teaching institution or, as I call it, a learning institution. Therefore we would be most attractive to faculty members who want to teach rather than those who want to do research. But the really good ones, particularly in the area of science, we can't keep unless we have some research, say in physics, biology, chemistry, psychology, particularly mathematics. We have to provide some research facilities and we have some grants with which to do it. We have a NASA grant of $150,000. We have a series of grants in biology and some in chemistry individually. We offer institutes which are in effect a pseudo-research kind of operation. These provide that extra dimension of activity for those people. Also somewhat on the esoteric side, we provide research grants or faculty-study grants in the summer time. We spend about $8,000-$10,000 a year for faculty members writing books. He can get up to a $1,000 in the summertime rather than teach summer school. We have combined with these five colleges which I mentioned in establishing an office in Washington. We have a Washington representative; a lady who works with us and whose job it is to identify government programs which might be available for support of the college or programs of the college, particularly in the research area. We just want to make ourselves as attractive as possible.

RESEARCHER: You are interested in research but only from the point of view of attracting teaching faculty and this is necessary sometimes to get them.

JAGOW: We think that is a vital ingredient. We are spending, for Hiram College, $5,000 a year in the Washington Office. She has an office now, just established in the last few months, to be our liason with government. The point is that we need some research, but we have to keep it under control. Now the other thing is we have had some talk about a research institute in which we can actually do some management analyses and scientific analysis. We are doing some of it for people like Pittsburgh Glass and Corning, particularly in the area of X-ray physics and research in phases of biology lab. In other words we need some of this just to keep ourselves first-class. It's a little more than just attracting the teaching people. It's necessary to have enough of it so that we are in the front lines.

RESEARCHER: Do you think you will ever reach the point where it is a major part?

JAGOW: I think it is a supportive kind of operation. It's supportive to teaching. I wouldn't think, however, that we could ever be a Case Western Reserve or even that we should be.

RESEARCHER: Public service. You are in a peculiar situation here in that you are surrounded by people who are performing the usual public services--evening programs, institutes, etc.

JAGOW: We offer no evening courses at the present time. Our public service dimension would be fairly small.

RESEARCHER: So in using Perkin's three branches of higher education; teaching, research and public service, teaching is by far your primary element. Now, what do you foresee if you are sticking to liberal arts or something related to it? Do you see this as an opportunity for the future? You were a little bit concerned about the future of liberal arts.

JAGOW: The so-called classical configuration, yes. I think that our market will be to train broadly-based undergraduates recognizing that in increasing numbers of fields, they will have to get their masters degree somewhere. I think we might go into a MAT program, Master of Arts in Teaching. That would be the first area we would move into if we moved into graduate education at all, but I think we can become a very good undergraduate college and there will be a market for us. One of the problems liberal arts colleges have is that they have made the mistake in the past of trying to be too many things to too many people and they can't do any of them well enough. We have to have a really distinguished program for which we are known and that's what we are known for now.

RESEARCHER: I would think that the risk would be that fewer students in the future would be attracted by this kind of program.

JAGOW: We think that the larger Ohio State University gets, the better it is for us. If we continue to do a real good job, if our teachers for instance and our graduates are successful, while they get bigger and more impersonal, this just helps us. As long as we can keep a focus on what we are going to do and keep specializing in this "non-specialized" area, I see it as a real specialty.

RESEARCHER: As far as resources are concerned, you are going to provide me with that in the audit report, etc;

at least the facility and financial part of it. Other than financial position and plant, we've already identified a strong faculty.

JAGOW: Our competition for faculty is not the Lynchburg's or Heidelberg's. They get syphoned off by the big universities. Now we can never stop that. Our purpose is to offer salaries high enough to make the big schools pay heavily for our faculty.

RESEARCHER: Do you have an existing organization chart?

JAGOW: Yes, we do in the faculty handbook. We better give you a faculty handbook.

RESEARCHER: If you had to categorize Hiram College, would you say it is "administrative-oriented" or "faculty-oriented"?

JAGOW: Faculty-oriented. It is not a cleavage though. I think that the faculty dimension is not a stronger dimension than the administrative dimension. There have been faculty people who were critical of this "Task Force" which was not my idea. It really came out of the faculty. It is forcing them to do some thinking and they find it difficult. I tell them that if they don't want it, we will run the kind of school they want. I'm very mobile. I don't have to be here. We will help them try to do the job if we can identify what they are trying to do. Having to do that kind of planning work, they are finding out that it is pretty difficult. What we are trying to do is to make it easier. What I'm really saying is that we had a situation in which an academic consideration would be valid enough without any realistic assessment that brings economic implications with it. We ran into deficits. We can't run that way. We don't have the money. The last two years we have run the college solvently. You've got to know what happened. Most of the time a faculty member doesn't stop to think that if he pushes a lot of stuff that he wants regardless of whether the college can afford it, his paycheck might bounce. I'm a firm believer that management is not a specialty in the sense that there's a mystique about it. One of the things that we have to do in administration is to say to "Mr. Faculty Member" that this is real easy. He could do it easily given time and interest. It's just that simple you know. We have to be solvent not for any reason except to make sure that his paycheck can be cashed. That sort of hits home.

RESEARCHER: I can understand that. You only have one school at Hiram but you do have departments?

JAGOW: Divisions and departments. Divisions are relatively weak. Departments are stronger.

RESEARCHER: Here again we are similar. Do the department chairmen get involved in the budget system?

JAGOW: Yes, it goes through the academic dean and they hassle it out. This year I didn't even sit in on it. The business office--we have changed business officers, too. That's another area where we were weak. It's been completely redone, relocated and reorganized. The whole job structure has been changed. The business officer and the dean on that level hammered out the budget after we worked on it overall. I mean we said overall it is all right. They worked out the details all on their own.

RESEARCHER: Including the salaries of the people within the departments?

JAGOW: No, the dean and I do that partly because we have a rotating department chairman basis plus the fact that I want to keep control of the salary budget. We do have a committee on appointments, tenure and promotion that consider matters of tenure and promotion and even the hiring operation. This committee of faculty, full professors, is very active.

RESEARCHER: And you do have rotating chairmen?

JAGOW: For three years more or less.

RESEARCHER: This is an historical thing here?

JAGOW: Yes, somewhat. I don't know how far back it goes. It's been going on for ten years or so.

RESEARCHER: You think this is better than a permanent chairman?

JAGOW: I'm not sure it is. I'm in favor of keeping permanent the strong ones and rotating the weak ones. I think you need strong department heads who really kind of understand the big picture. You have to be very careful with the young non-tenured people that they don't run away with the college.

RESEARCHER: Now, suppose you want to implement an academic program. Let's use this business administration program for an example. How would you go about doing this?

JAGOW: Well, first of all I think you have to really build a good case for it. In other words a long-range case indicating what it's attractions would be. We have operated for the last year and a half on the basis that we cannot afford any more programs unless we take away some other program. In other words if you want to install a new course what course do you want to cut out? Now this was never done before and the reason for this is now we have developed our "cost per course" by department. We can say it costs so much to teach a course in music or so much to teach a course in history. We have to be very careful about enriching a program. For that reason I would have to build a strong case for my proposal. It would come before our Educational Policies Committee made up of people on the Board of Trustees and on the faculty. All curricular changes, additions of courses, changes of courses goes through the committee. That's where it ought to start. And I would have to present my request this way.

RESEARCHER: You could do it without going through someone in business administration?

JAGOW: We don't have anyone in business administration.

RESEARCHER: Economics, maybe?

JAGOW: I think the smart thing would be to do it by way of the Economics department. Then from the Educational Policies Committee, it would come before the faculty. The faculty would have to approve it. If they approved it, then everything is fine.

RESEARCHER: What you are saying then is that you could do this as long as it could be economically justified, really?

JAGOW: Well, I think educationally justified, also.

RESEARCHER: O.K. You said something about a "cost per course" analysis. Have you done this already?

JAGOW: Yes.

RESEARCHER: Is it possible that some of these figures could be available?

JAGOW: Yes, I think Wendell (Academic Dean) has it. We keep it closely held for our own purposes of planning but it has been very interesting.

RESEARCHER: If you wouldn't be divulging anything, I'd like to see it.

JAGOW: We did it in a work-paper form, like you have yours. We can show it to you. You can get some feeling for what we are trying to do. It is not highly sophisticated, but a lot more sophisticated than it has ever been before. It has been very revealing to the academic dean. Our dean who is Vice President and Dean of the College was head of the mathematics department and came into administration about five years ago. Upon request of the then dean he became acting president when the previous president left.

RESEARCHER: Do you have job descriptions?

JAGOW: Yes, the faculty handbook has them. I don't know if it's good but it is something. The faculty handbook describes for new faculty how we do business in the college. We haven't talked at all about trustees. You have noticed that in all of this I have tried to be very specific--I think the one thing that is very important is that the college operate as a unit. When you say, "is it administrative or faculty oriented," I think most of the other schools are administrative. The point is that this college unlike many other colleges has a strong faculty voice in what it is doing. The faculty knows this and is comfortable about it. It is not a faculty that is "hell-bent" on destruction and to heck with everything else. They are very conscious of making Hiram successful. There is a strong loyalty. This isn't shared by everybody, but they are not a faculty that is here to wreck the college. They are here to make the college grow. We see our job administratively as making it more effective and helping them do this job. I've tried not to operate on a demogogue basis partly because my background has been elsewhere. People say,"you are too apolegetic for your 'non-academic background.'" I just use that term myself because I've been in administration so long. I think the rapport around the faculty on the campus is good. I think it creates a liberal kind of operation more than a conservative type. You will find for instance that the college is a little more liberal on matters of student discipline and this sort of thing. It is also far from some of the Disciple orientation some of the other colleges have. This is tied in with the kind of Board of Trustees we have. This is a good Board.

It is relatively well staffed. We can improve that by getting more top-notch people. We have probably a few top-notch people and then some of what I call second-level people in Cleveland or Akron, etc. We have some trustees in New York and Chicago, Michigan and Phoenix. I think they are interested in being trustees--they don't meddle but they are very much interested. They are on call all the time. They participate pretty well. They are active in the college. I have no trouble getting them to come to meetings at strange times. The Board of Trustees is one of the strengths of the college. It is self-perpetuating so we can pick them according to who they should be. I have picked two new trustees since I've been here. We can get them and we also are attractive enough in our area that people will consider it an honor. We have a new man from Warren who is a Chevrolet dealer there. "Mr. Warren" was active in all community affairs; he is the greatest.

They are interested in having Hiram be a good college, but they are also concerned about it being able to afford itself. In the past year we have doubled our support to the college from gifts for current operating purposes even at a time when we were not well-organized or geared up to it. We have not engaged in campaigns believing that if we build steadily and regularly the college will get the kind of support needed. By and large the alumni and other people have responded. They feel that the college is moving and developing some financial stability. It is also better academically. The students are active, alive, and interested. Even in this little rural area, we have a pretty alive student body.

RESEARCHER: Do your trustees get involved in educational policies?

JAGOW: They have an Educational Policies Committee. They meet with our faculty Committee on Educational Policies, and they have reviewed the "Task Force Report." They had no part in developing it. They are very much aware.

RESEARCHER: From an approval point of view?

JAGOW: Oh, yes. They ask pertinent questions and make suggestions. We have a guy who has a Ph.D. in Chemistry, Vice President of U.S. Gypsum for research; another man who is in a top management position at Standard Oil of New Jersey, also a Ph.D. in Chemistry.

RESEARCHER: They are quite helpful to you.

JAGOW: They will come from Chicago, Detroit, New York for a meeting on a Friday evening or something like that. On the basis of what I think that unless the Board has the right kind of orientation and educated properly; even the most valuable potential cannot be used effectively for the college's benefit.

APPENDIX B-2

NOTES FROM CONVERSATIONS WITH
PAUL SAGO, DIRECTOR OF DEVELOPMENT
AND
ERNEST E. CONKLIN, BUSINESS MANAGER
HIRAM COLLEGE

MR. SAGO:

Mr. Sago had been with Hiram College less than two years and had come at the invitation of President Jagow. He left two weeks after the interview to accept a position at Anderson College as Vice-President for Financial Affairs.

Sago expressed considerable concern over the amount of freedom exercised by faculty and students in various social "activism" demonstrations. He felt that demands had been excessive and the administration had been too lenient and had succumbed too quickly to the demands. It was his opinion that the type of "activism" experienced at Hiram was detrimental to the development program. Sago indicated that he had to exercise care in selecting faculty people to talk to business men who were invited to the campus. No real analysis had been made of the degree of detriment experienced by Hiram.

Mr. Sago's opinion was that Hiram was definitely a "faculty-oriented" school where faculty exercised too much influence in the decision-making process. This had been historically true and in the two years of President Jagow's administration, the pendulum had only begun to swing in the other direction very gradually. It was Sago's opinion that President Jagow had moved too slowly because of an over-sensitivity about the lack of a terminal degree. (Note: President Jagow also expressed his opinion to the researcher about his lack of a degree in an academic discipline.) Sago felt that Mr. Jagow's qualifications were eminently superior to that of most of the "Ph.D.'s" he was in contact with. He went further to say that Mr. Jagow represented the greatest asset at Hiram. According to Sago, the management philosophy brought to Hiram by Mr. Jagow was being accepted quite reluctantly by many of the faculty while others were quite receptive. He felt that Mr. Jagow had moved much slower than was necessary.

On other miscellaneous subjects, Mr. Sago made these comments. He believed that income from gifts should not be used for current operating purposes but should be added to the endowment funds. He intended to operate that way at Anderson College. On the subject of a college's capacity, he felt that the significant criteria was the philosophy concerning the personal contact between the faculty and the students. If you have dormitory, dining hall and classroom space, there is still the faculty with which they can maintain contact. Finally, on the subject of enrollment, Sago indicated that Hiram had difficulty in obtaining the necessary number of students. He thought that in some cases academic standards had been relaxed but generally they still were attracting top quality high school graduates. He was not in agreement on the image the recruiters were presenting with the red Ford Torinos with the white racing stripes. While this might have some appeal to the potential students, he thought it might have a detrimental effect on the parents. Other topics discussed with Mr. Sago served to reinforce comments made by President Jagow.

Mr. Conklin:

From Mr. Conklin it was learned that the budget procedure at Hiram started with an initial request from the department chairmen. This request did not include salary information. This was kept within the circle of the president, the dean, the business manager, and the trustees. The requests were put into final form by the business manager in consultation with the president. After the desired budget was determined, it was submitted to the trustees for approval. Net surplus or "reserves" were budgeted into the current operating funds, an amount was included for a number of years to "repay the current cash accounts."

Mr. Conklin agreed that the annual budget was primarily fixed with little flexibility in case of income being less than estimated. He felt that only long-range projections could be used to control the inputs into the expenditure programs.

APPENDIX C-1

INTERVIEW WITH PRESIDENT PAUL F. GEREN
STETSON UNIVERSITY

GEREN: We are eager here at Stetson to develop a cluster of colleges about the university. It now seems clear that the Episcopalians are going forward, that they are opening in September, 1971, a partial liberal arts college. They already have their property. The land is right here in the next block. I'd be glad to take you there, or some of us will, and show you. They have bought up the whole block and they are going to build one large building which will have two towers, a dormitory for men and a dormitory for women. In the story on the bottom, they will have a refractory and chapel, etc. They will emphasize there, in this partial liberal arts college, certain of the humanities in which we at present do not have great strength; for example, the classics. We teach Greek but usually by a visiting instructor. We are not teaching Latin at all. We are also thinking that the Episcopal college will be a strong "Anthropology" teaching center. We are not very strong in "Anthropology" now.

RESEARCHER: I don't quite understand the cluster of colleges. Will there be some official connection between you and the Episcopal college?

GEREN: Yes. They will use our library, our admissions office, various other student service offices and probably our science laboratories. A student could either do just about all of his work in their college, or he could, if he were a science major but wanted to minor in the classics for example, do his major with us and his minor with them. In other words, classes would be interchangeable and students in either Stetson University or the Episcopal College of Florida would enroll for Episcopal College courses or for Stetson University courses.

RESEARCHER: Would they be connected in any way with Stetson University other than in the transferability of courses?

GEREN: Yes, initially at least we would be giving the degrees. As you know you can't be accredited before completion of a four-year period of operation. Whether, after those four years, they would want to give their own degrees or not would be a question. We would have to work this out in a very closely integrated way. The tuition and the parietal regulations would be basically the same.

RESEARCHER: And you are interested in doing this with other denominations?

GEREN: Yes, there is where we pick up the tale. We had originally had conversations with the Episcopalians, the Disciples, the United Church of Christ and the Lutherans. My conclusions at this stage is that really no other denominational group is prepared at any time within the foreseeable future to build a partial liberal arts college. The Episcopalians for example are putting $3 million into their school. One million for the building, one million for endowment and a million as a kind of reserve for operations. I forget what the Disciples told me it was, maybe $30,000 or $40,000, that they give to Lynchburg and other Disciples' higher education. The Lutherans, I don't know, maybe it was $20 thousand. The Lutherans I guess are numerically stronger in Florida. Just on financial basis, it is clear to me that it would be naive to think about a Disciples' liberal arts college in this section. It is highly desirable from our point of view, but I just don't think it's there. Therefore what we have turned to is an International College for the cluster which would have ecumenical support. It's an idea in my own mind which I have shared with people. That is, the Disciples would either pay a professor's salary or put in some kind of scholarship money to encourage Disciple's students to come and likewise the United Church of Christ, the Lutherans, and possibly other groups could participate in this way. In this International College, we would have one-third International students and the others would be American students. They would be a bit more closely knit than the usual run of International and American students. It would be a case of simply spreading these international students around in the dormitories.

I see three professorships in the International College. My hope would be that the disciples would take one, the United Church of Christ would take one, and the Lutherans would take one. One of them would be the Dean of International Living or whatever you should call him. The man who presides over the International College living arrangements.

The second man should be a specialist in the training of laymen to work abroad. So we should be putting out here a number of graduates each year who think of working in international trade, international business and international functions. All of these students are pretty well prepared for now professionally. We wouldn't think of them as missionaries. If the professor wanted to spend a semester with us, it might be a good thing for our enrichment and for the International College, too. Anyhow there's the second endowed professor or church-supported professorship.

The third would be a chairman of our "Committee on War and Peace." We haven't decided exactly what we will call it but the general idea is to have a "think tank" on the whole question of war and peace, on the new departures. The Committee would of course be specifically oriented to the Christian ethic. What does it mean to be a Christian in this realm?

RESEARCHER: It seems to me what you are trying to do is get church-related schools to look beyond their small approach to education and combine their schools' efforts in one large university. You see this as a way of combating the state-supported educational system?

GEREN: Well, I guess combating is not too strong a word. I would say, competing with them in a way in which I feel we can beat them. Obviously, for example the "Council on War and Peace," state schools just can't do that in the way we can. I don't think they have as much freedom, and of course they don't have the orientation to the Christian ethic.

RESEARCHER: You see private church-related schools going this way and competing on this basis because this is their "strong suit." In Florida you have a very extensive state system, haven't you?

GEREN: We have. We have, compared with other states, a reasonably strong private church-related group, too. In the state university system, the two giants of course are the state university at Gainesville, the University of Florida; and Florida State University at Tallahassee. These are both up in the 10,000 to 20,000 range. Then there is the Negro school with about 5,000 students, Florida A&M. I don't know whether they are really going to integrate in the sense of specifically doing away with the Negro unit. Then continuing with the state system, there is the University of South

Florida at Tampa; there is the University of Florida in Boca Raton on the east coast; then you have this tremendous system of almost 30 junior colleges. I believe there are 26 in the state junior college system and about 4 or 5 private junior colleges. Of course the great increase in student population has taken place in junior colleges. They are a feature of the last 5 years. Meanwhile the University of Florida and Florida State University still turn away students. Most of the growth is taking place in the junior colleges. We are growing slowly. I think most other church-related schools are growing slowly but the percentage of private enrollment to the total student population is declining. It is now about 42%.

RESEARCHER: Where do your students come from?

GEREN: Seventy per cent of our students come from Florida. Thirty per cent of them come from outside. For most of the church-related schools, it is the case that they get a much higher percentage of students from out-of-state than do the state university. Now Rollins, for example, has 60% out-of-state. They cultivate the New England and the New York area. We do, too, but we don't get as large a percentage of our student body from outside.

We have a very large student aid item in our operating budget for the next academic year. Our operating budget is a bit over $6 million. One million is student aid and of that almost 1/3 is federal government aid for students. You may know something about the reluctance of many Baptists to take all forms of federal aid. The one form we are not taking currently is federal grants for construction. We do take National Science Foundation grants, funds for students as in the Economic Opportunity grants and the Federal Work grants, and the federal loans. Our own input of student aid is about $300,000.

RESEARCHER: I'm afraid I haven't kept up with it the way I should, but about a year ago didn't the Baptist soften their statement as to what was acceptable and what was not?

GEREN: State by state it is loosening and it is loosening here in Florida, but in Florida we had a kind of traumatic experience. I speak as one who is less than a year old in this job. You know I came here in September of 1967. I succeeded a great man, Ollie Edmonds. Is the name familiar?

RESEARCHER: He is Chancellor?

GEREN: He is now Chancellor and he was President here for 20 years. He was a dollar a year man. He gave his time to the University, but he is also a man of some wealth and business activity. He had by the fact of his greatness and money-raising ability held the place together. In 1965, he took federal grants to build the science building and buildings for the law school. The denomination "rapped his knuckles" pretty hard and cut back the funds they were giving. Now they may restore the "cuts" and a little above, but we have given our commitment that we are not at present enjoying and do not have any plans to apply for a federal grant for construction. We have more or less put that bit of federal financing possibility aside. If you ask how long that stricture will last, I don't know really. We may be relieved from it in three or five years, but in any case we operate under that stricture now and I am saying emphatically to our constituents that this is the absolute truth. We are not receiving and do not have any present plans to make applications for federal grants for construction, but all other federal aid we are gladly receiving.

RESEARCHER: Tell me a little bit about the relationship of Stetson and the Southern Baptist Convention.

GEREN: First of all I want to point out that the relationship here at Stetson is rather different from the usual Baptist relationship. The conventional situation will cover Wake Forest, Furman, Baylor, Hardin-Simmons in Texas, Mississippi College or the University of Richmond. The various state conventions, not the Southern Baptist, but the Florida Baptist Convention, the Georgia Baptist Convention, or the Virginia Baptist Convention, will "own" the college in the sense that they nominate and elect trustees and the ownership and control of all assets is vested in the trustee body. This is not our situation for the reason that this school got a charter from the state. It is the oldest institution of higher education in Florida by just a few months. In 1883 it started operations and I believe the Charter came about 1885. It said that this University should always have a Baptist as a president and 3/4 of its trustees should be Baptists, but it didn't specify that they should be Florida Baptists; whereas, for example, Wake Forest says trustees and the president shall be members in good standing of one of the churches in North Carolina. So our charter says 3/4 of them must be Baptists but the trustees are also self-perpetuating. So really you don't have anything but a kind of nodding of the hat to the Convention. In other words it is a kind of spiritual connection rather than statutory. There is no constitutional tie with the Florida Baptist Convention at all.

RESEARCHER: What about a financial tie?

GEREN: Well, there is a tie of financial support. It is not written into any kind of agreement. It is just written into the budget of the Florida Baptist Convention from year to year. The Baptists and the Disciples both operate this way. You say you are a Southern Baptist?

RESEARCHER: Yes.

GEREN: Then you are one of us. You know how the state convention is the supreme body for its particular region. They present a budget at their convention each November and say we are going to give Stetson, through the Cooperative program, so much money. It usually is in terms of a stipulated amount together with a percentage of any overage in the Cooperative Program. In this way we got in our last school year just above $200,000. In addition we went to the churches following that period of "rapping of knuckles." We got about 18 or 20 of the larger and more generous churches to make gifts to us over and above the Convention Cooperative Program. I suppose when the year was closed, we must have gotten about $240,000 from the convention and churches together. Now we are in the budget which will be recommended to the November Florida Baptist Convention for a big increase, namely up to $315,000. That with overage, etc. ought to bring us up to $350,000 for this present school year.

I can say that much of the problem and opportunity of being an administrator at Stetson resides in the cultivation of the Baptist constituency. What they want, of course, is more direct control, not having what the other state conventions have in terms of ownership. They do want something. I hope that they can be persuaded that it doesn't have to lie in a change in the constitution or a change in the charter but instead in a declaration that Stetson University is a servant of the Baptists of Florida.[11]

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[11] Researcher's Note: Many state conventions are studying their relationship with their schools. In Virginia a committee is expected to submit a recommendation in November that support to all but two schools schools be dropped.

We are here to train layman, ministers, directors of music, and directors of education and over and above that we are trying, with the Baptists, to get answers to the questions "how does a church constituency engage in higher education?" What kind of university ought we be? What is the proper kind of projection in the higher education field of the Baptist constituency? What can we find out about urban life that gives an insight to pastors? In other words we would be a formative influence in the Convention as well as being formed and informed by the church.

RESEARCHER: You have already done the first part of it for me in identifying the environment in which you are operating. If you would, now I would like for you to talk about your objectives. You have already talked about developing the constituency, taking this formative approach to the constituency, what does Stetson University want to do? What does it want to be?

GEREN: O.K. Let me sort of recapitulate it under several heads. For one thing we want to grow modestly. I see several cutoff points for any college. Now one of them comes at about 250 to 300 students. We have got as one of our competitors, New College at Sarasota. Have you ever heard of it? They, I think, would have 60% or 70% of their students coming from out of state and the rest of them are very high ranking high school graduates from Florida. They have dispensed with grades and with rigid requirements so that you sort of get in and study. Everybody has a very very high I.Q. Until they came, Stetson was number two in the south in terms of the percentage of their students who won Woodrow Wilson fellowships. This last time, we won two with our 2,000 students and New College got eight with their 250 students. What does this mean? It simply means that they have all the high I.Q.'s, they are working in that unstructured way, doing famously, and doing a very fine thing. It has cut us to the quick that we have lost that leadership in Woodrow Wilson fellowships to them. But really there is no going back. You can't unless you are willing to be a very very small selective school. Can you really contend with that kind of thing?

I think that since you are way beyond 300 students obviously the thing for us to do is to become a good quality small university. A university in what sense? Not in foresaking the liberal arts tradition. Indeed we are as much in that as we ever were. Let me define what I mean by liberal arts. One, I mean the primacy of teaching. Our people are doing some research but the research fits in with the teaching. They are doing some consulting, but it fits in with their teaching. Our educationalists are consulting with the state system and that sort of thing. That's all good but our people do not work as so many people in state universities attempt to, spend two weeks in the classroom and three weeks out with industry. By being in the liberal arts tradition, I mean the primacy of teaching. Secondly, I mean the primacy of general education as against special education. This doesn't mean that we don't have a Law School. We have. But it is, of course, at the graduate level and you go there after you get a good undergraduate education.

RESEARCHER: Is the Law School the thing that gives you the status of university?

GEREN: In part but we have some other specialized schools we ought to mention. Namely, we have a professional School of Music. It is undergraduate and it is excellent. I'd say the things for which we are most famous are the Law School, the College of Liberal Arts, and the School of Music. Obviously the Law School is the graduate school. You don't even get in unless you have a A.B. degree. It does give a lot of the university character to us, but to get on with the development of how we can be a small university and a liberal arts institution, we will, in our undergraduate courses, be directed always to the general education concept. In other words students enrolling at Stetson should want a good background that includes some science, the humanities and, in our case, includes religion. So there is a kind of "total man" approach. We don't ever want to get away from that. We are not only trying to motivate people to acquire knowledge, but we are also trying to give them the concept of the whole person. This is what liberal arts means to us.

Let me move to the School of Business Administration. We have a School of Business Administration. It is in my view the weakest of the four. This gives us four schools or colleges. Liberal Arts is by far the biggest one. In the School of Business Administration, for a person to get a Business Administration degree, he will take about 40% of his work in business and 60% in the liberal arts. That also is a part of the definition of a small university in the liberal arts tradition. We will never multiply business courses so the student becomes very very narrow and specialized. It is a matter of giving the person specific business training in business if he wants to in a shorter time than it would otherwise be possible or he can go on immediately to the practice of a business if that is his choice.

Now I'm defining what our objectives are, we want to grow but selectively on the basis of the kind of growth that is congenial to a small university in the liberal arts tradition. Next, we want by means of the cluster college concept and the development of the International College which is a constituent in the cluster college and also through the development of a School of Urban Sciences to have the best kind of involvement in our social and political problems and in such a way that we bring the

TABLE C-1a
STETSON UNIVERSITY
LIST OF ACADEMIC DEPARTMENTS
AS OF AUGUST, 1968

COLLEGE OF LIBERAL ARTS
    20 Undergraduate Majors
    10 Graduate Majors

SCHOOL OF MUSIC
    8 Undergraduate Majors

SCHOOL OF BUSINESS ADMINISTRATION
    5 Undergraduate Majors
    1 Graduate Degree

SCHOOL OF LAW

Source: Stetson University Bulletin.

insights and the ethics of the church to apply. We want to develop through our research and teaching experience the kind of educational insights that are germane to the church institutions.

Let me discuss it under the headings of ecumenical objectives, international objectives and under the heading of response to a developing urban society. You may know that "ecumenical" is a kind of dangerous word, Baptists are not really against what the word stands for but they have developed a kind of "mind set" about the World Council of Churches and that kind of thing. Let me say that in the development of the "Episcopal College" over here we do have a problem with our church constituency. While I would say the pastors in the churches who really support us are for it, we have a lot of pastors that are not for it and who will stand up in the convention and give trouble. I see it is a matter of information, communication and education. I repeat that this is one of our very big jobs here. Let me say specifically that we would be greatly pleased if we did have somebody else in addition to the Episcopalians to start a partial college. You can appreciate that there is not as much suspicion on the part of some Baptists toward the Disciples who have the same congregational type of government, baptism by emersion, and who reflect in a way the sort of same economic structure, middle class on the way up getting richer. Whereas, the Episcopalians are likely to feel differently about alcohol and likely to feel differently about the Roman Catholics. Having a different form of church government and being usually from a higher strata in the middle class economically and educationally, you get the Baptists and the Episcopalians in a particular kind of tension here. If it were for example a Baptist-Disciples-Episcopalian the tension would be relieved. But, as I say, I just don't see the involvement of a specifically Disciples partial liberal arts college. However Disciples involvement, United Church of Christ involvement, and Lutherans involvement in the International College would be to a certain extent a kind of offset against the Episcopal College?

RESEARCHER: Do you look at the International College or the School of Urban Science as a graduate or undergraduate studies?

GEREN: Basically, undergraduate in both cases. I would see a Master's Degree in Urban Sciences as a possibility some years down the road, but we really can't compete very well with the big state universities. We give a good master's degree in education. We want to keep this but mostly our graduate work is for people who are not looking toward doctorate degrees. If they are looking toward doctorate degrees, they do better to move on to the place where they are going to get their doctorate degrees.

RESEARCHER: You don't think you will offer doctoral work here?

GEREN: I don't see it.

RESEARCHER: What other areas of study do you contemplate then? You have a law school, you have a school of liberal arts, and music. How about ministerial training?

GEREN: Preseminary, maybe, but that is in liberal arts.

RESEARCHER: You wouldn't think of going toward a seminary then?

GEREN: We do give some M.A. degrees in religion. Usually it is to a preacher who is a scholarly type but didn't go to a seminary. You probably know that a Baptist seminary separates the educated ministers from the others. The others are not likely to even be college men. Still in the South about 1/3 of the preachers are not seminary men.

RESEARCHER: Yes, I knew there was a big percentage. From the point of view of objectives, is there anything else you can think of?

GEREN: Yes, in addition to the ecumenical emphasis, the International College should be emphasized. We have to do this without getting a number of highly specialized courses. For example, we can't have a course in Arab history in the 16th century. We just can't do that, but we can work into the content of our liberal arts courses a good deal of non-western civilization. For example, a history major might very well concentrate in American history but he also needs an idea of the history of the Orient, the history of China. A major in the social sciences--economics, sociology, or psychology. Because of the general impact of the international college which is feeding in content to the liberal arts college and people from the liberal arts college taking two or three courses in the international college, he is going to get not only the input of the highly specialized international course but international studies in the sense of what is the culture of other areas, what is the psychology of a Japanese, etc. He'll get more exposure to this than my generation or even your generation.

So the International College will provide the international emphasis, and finally then will be the School of Urban Sciences. It certainly belongs in the objectives. Here we are working with the cluster concept by getting stronger ties to existing institutions. Foremost among these at present is Bethune Cookman College which is a Negro College under the Methodist over in Daytona. They have 1100 to 1200 students. They have a remarkable man, Dr. Richard Moore, as president over there. I served for a time in the southern part of Africa. He is working to tie strongly with the Methodist. Now, they are integrated as we are integrated, but we are obviously primarily white. We will remain that way for the foreseeable future. They are primarily Negro and will be that way. We are starting the School of Urban Studies together. It is still just an idea in our minds. A joint seminar in the social sciences will be the first effort which the two colleges are giving on "Problems of Social Conflict." We are going to have six faculty members from each school, and six townspeople from Daytona Beach and DeLand. We will meet in a seminar once a week. We will meet for one month on their campus, the next month on ours. We are going to examine problems; economic problems of poverty, the rich and the poor, the law enforcement problem, the police, the citizen and the education problem. Are you aware that last March, 1968, there was a walkout of the teachers of The Florida Education Association, which is a state chapter of NEA. It was an endeavor to focus attention on the public school situation in Florida. Finally, the governor called a special session of the legislature and made better arrangements for the schools and higher salaries, etc. but we still have in Florida a troubled public school situation. This will be another feature of our seminar.

This joint seminar with Bethune Cookman College does at least two things for us. One, it involves us with Negro education in a primarily Negro institution. We have, I think, a very happy integration of our own university. We have about 20 Negro students. It is clear that their number is going to increase but we want to be involved both as an integrated institution and as a helping hand to a primarily Negro institution. They are a helping hand to us. I don't mean to say it is all one way.

It involves us deeply in the problems of the education of Negroes. Secondly, it is the entering wedge on our School of Urban Sciences. In Urban Sciences I don't see having courses in "How to Be a City Manager in a Town of 5,000 to 6,000" and another course in "How to Be a City Manager in a City of 50,000." Not that at all, but by way of this kind of input, we are developing for our sociology courses, for our economics, and for our political science, the input from the "real world." We are relating them to the kind of society that we are living.

RESEARCHER: Almost a laboratory.

GEREN: That's right. Also, I see this as greatly relevant to the church relationship because these churches are located in the cities and the developing communities. You know something about the fabulous economic growth in Florida. This is the fastest growing state east of the Mississippi.

RESEARCHER: Most of the objectives you have been talking about so far have been concerned with the social problems of the day, the question that comes to my mind is why wouldn't a state university be more capable and qualified in this area than a private school?

GEREN: Well, they don't have the particular combination of Christian ethic and social problem awareness. Without any doubt if you get to the point of specialization they are more competent. Whether or not it is the extreme specialization that does the final good is doubtful in my mind.

RESEARCHER: O.K. We are talking about objectives and I think I understand what you have discussed so far. You mentioned that your Business Administration School was one of the weaker schools at Stetson. As an objective would you say you expect to strengthen this school?

GEREN: We surely do.

RESEARCHER: Why do you think it is the weakest one in this university?

GEREN: Because the quality of the teaching isn't as good as in the college of liberal arts.

RESEARCHER: You apparently plan to strengthen it by strengthening the teaching. From an objectives point of view then, what else would you like to mention?

GEREN: Well, now of course this objective is subsumed with all the rest, but we had in the academic year just closed a deficit of $85,000. We must obviously start right soon the long-range planning you are talking about. We must be in the black in the current year. We need to trim costs and increase gifts. That is an objective, to get on the best operating basis to accommodate the financial needs to our programs.

RESEARCHER: With that in mind, one of the things that I have found, and I'm sure you are well aware of this, is that once you start the academic year such as 1968-69 your budget becomes pretty rigid and fixed, there's not much you can do about it.

GEREN: That's right.

RESEARCHER: You say you've got to get into the black this year. Does that mean that you are looking for more students this year or a rise in tuition?

GEREN: No. We are not raising tuition. We have been and are still looking for a slightly increased student body for the coming year. There are always some corners that can be cut on the budget. If you projected six new teachers and you don't have but five of them, then you stop looking.

RESEARCHER: I see what you are saying. You can affect the additions to your budget for the coming year. Very good. Let's talk a little more about the risk to private education. So many people that I have talked to are quite concerned that private education may not be here to stay. Others say, if it is, it has to be a hard road but maybe in 20 years we might make out. What do you think here in Florida?

GEREN: I think that the percentage of the students that are entering private institutions compared with total entering students will continue to decline. I think that nearly all of the present church-related institutions are going to survive. That's because I think they are a pretty strong lot. A group of Baptists are attempting to start a new college in the West Palm Beach and they are opening in a church down there. They said to the Florida Baptist Convention they were not asking for any help yet. They will work only with the local association. I can't believe they will get off the ground. They may later on try to present themselves to the Florida Baptist Convention as a regular supplicant for funds from their budget. I am, of course, obviously opposed to any multiplication of Baptist schools who want Baptists to put their resources behind them. I would say that I don't see a very bright future for additional church-related colleges except as they might be in some kind of relationship with us. That is, becoming a small worthy university here. I think we are all going to make out but obviously I don't deny we are in a critical situation.

RESEARCHER: What about the competition for faculty with the state institutions?

GEREN: One, while private schools do not pay as well as the state university, if you begin to look around and see the fringe benefits and the student load that we have, we don't compare too unfavorably. I have a number of studies on this subject and can give you copies of them. We are number ten in the state in average salary but in the average compensation for faculty members we come up to about seventh place and then, if you put it in average compensation rated to the student load, we are up to about fifth. I don't, at present, see the recruitment of faculty as an insurmountable problem. They like to teach here. We do have a character of individuality that state institutions don't have and of course to so many of our faculty members, the Christian ethic is not just nonsense, it is something real. Also there is the close faculty-student relationship. This doesn't appear to me as near as formidable an obstacle as some of the others, at least at this point in my administration. I would like to increase the percentage in our faculty.

RESEARCHER: Obviously you have a higher tuition than the state schools. Do you see this difference increasing?

GEREN: We have to really hold our tuition where it is for a year or so anyhow. The state schools are raising theirs. The difference compared with the University of Florida is $1,000 per year if you count everything. Not everybody thinks the difference is worth it, but there are enough people still who think that it is and they allow us to go on. We just raised the tuition effective at the last academic year from $1,200 to $1,400 per nine months.

RESEARCHER: How many students will you take in this fall; freshmen?

GEREN: We will take in about 550.

RESEARCHER: Do you know what percent of the applicants that is?

GEREN: Our admissions man can make this more precise. It's about 2/3 of the applicants. One thing that is happening is that our applicants are selecting themselves. This has been changing in the last five years. We used to turn away two out of three. It was largely because a lot of people who were hopelessly unqualified from our point of view were nevertheless applying.

RESEARCHER: You said you wanted to grow modestly. About how big in the next five years would you like Stetson to grow?

GEREN: Including the Episcopal College which will take about 400, we should like in the next five years to move from our present 2,000 to 2,500.

RESEARCHER: That is fairly modest. Does that include the Law School?

GEREN: Three hundred of those students are in the Law School.

RESEARCHER: These objectives you have given me, would you say the faculty here is aware of them?

GEREN: They are becoming increasingly aware of them. We have a good deal of dialogue about objectives. The International College especially has been very significantly explained. Our seminar was the main focus and forum for the development of the School of Urban Sciences. On the idea of the gradual increase they are informed and they agree on the idea of the firmer tie with the Baptists. They understand and I imagine the agreement is about 75%. There is still some, I hope, creative tension here between administration and faculty. There are one or two Baptists and a few non-Baptists on the faculty that believe we would really do better to scrap the Baptist tie.

RESEARCHER: This is not part of your future plans at all; to get away from the Baptists?

GEREN: Not so long as I'm President. It's either a matter of basic change of "mind-set" with me or else my ceasing to be President.

RESEARCHER: You have four different colleges here. I would assume that as far as initiating plans, objectives, etc. and carrying these out, it is easier for you as an administrator than it would be if Stetson was a school with one faculty body to vote as one?

GEREN: As a matter of fact, the faculty is one body. We even have some joint meetings with the law faculty even though they are off the DeLand campus. This is an objective, too; to be a university not, just four warring camps. I would say that it might be easier to divide and conquer the faculty in terms of specific objectives but there are other objectives including this strong spirit of unity which you really can't accomplish unless you move together.

RESEARCHER: Aren't you saying that they are somewhat aware of your objectives and the direction you are taking?

GEREN: Yes. The chief vehicle is the general faculty meeting plus my attendance at sessions of the Faculty Senate. The Faculty Senate is a very important body here and I have been invited to all their meetings. I have been given a chance to explain. Also getting these things down on paper and circulating documents among the faculty and administration people has helped. Remember I'm speaking in the context of having been on the job for one year. Another vehicle that helped was the President's Seminar in connection with my inauguration last January 26. The seminar ran through the month of January and included 50 of our students and 60 of our faculty. We debated the whole future of Stetson. Nobody in that seminar could claim that he didn't understand the goals I had in mind and of course there was a great deal of discussion and some dissent. Also, a lot of these programs have been shaped on the anvil of that kind of confrontation between administration and faculty.

RESEARCHER: How many faculty members do you have?

GEREN: Including the Law School, 116.

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RESEARCHER: A couple of things have come up. One is this deficit year that seems to have caused considerable consternation; and, as I understand it, you are now operating under a sort of decree that this won't happen again.

GEREN: This came from me. It may be a little bit brash because it is not unknown for a university to have a deficit. I just had a clipping that Peabody was going to have a quarter of a million dollar deficit. I have made the resolution for myself, especially because we had one real "boo boo" in overcommitting $85,000 worth of aid that we didn't have. The rest of the deficit was produced by the fact that we don't get the amount of gifts we budget. It was a big "boo boo" and a kind of failure in the Development function.

RESEARCHER: From that point of view, I would say that under normal conditions a single year's deficit where you know it is going to be followed by better years is not going to be necessarily undesirable. Do you accept that?

GEREN: That's right.

RESEARCHER: From the point of view of your resources, how do you evaluate them? By this I mean facilities, people, and money available to Stetson University?

GEREN: Our finest resource is our faculty. We have a good Ph.D. ratio. It is above 70% but one of our finest teachers is a M.A. Seventy per cent suits me as far as Ph.D. ratio. We have a cultivated faculty. We have five Harvard Ph.D.'s, several from Yale, University of Chicago, Columbia, as well as fine state universities. It's not an Ivy League school but it has a good input from Ivy League. It has good input from western and central state universities. It's a good faculty. Several of them are doing interesting research related to teaching. We don't have any fellows who are out just for research or are consulting and away from the campus all the time. The main body of the faculty is pointed the same as the university catalogue says it is. Mainly we are concerned with persons, we are concerned with the primacy of teaching, with values as we see them; Christian values involved in human beings. We have a fine faculty.

Second, our dormitories are a little bit below what they ought to be, especially the men's dormitories. Our general classroom space is pretty good. Athletic facilities; not nearly good enough. We've just gotten the pool and that helps. We want to get a gymnasium in which to play basketball. We don't have football, but we play very good basketball up in the sort of second league and occasionally we get invited to the National Collegiate Invitational Tournament. We have a good library. I feel it's better than most and we are making it better still. We are on a drive now for a half million dollars for acquisitions that will bring us right up to date.

RESEARCHER: What about financial resources?

GEREN: We have $5 million in endowment. That's not enough. Also we can do better in terms of its investment and use. You've heard the story doubtless about how Wesleyan in Connecticut turned about $30 million into over a $100 million over the 20 years of Butterfield's presidency by getting in growth stocks. We are a little bit conservative here with the investment of our endowment. We are just making 4.6% to 4.8%.

RESEARCHER: That's higher than the average for endowment funds, as I recall. At Washington and Lee, they have a $25 million endowment. They don't think they have enough and they only have one half your student body. How much endowment is enough?

GEREN: Once again there you have to make up your mind about what kind of university you are going to be. Obviously we can't be a Harvard.

We can't even be Emory. Emory has $70 million in endowment. But I'm saying we would be a lot better off if we had $10 million and still better off if we had $25 million. Just think if we had $25 million. You ask me what I dream about endowment. I dream of about $25 million. That's not likely to happen in my presidency, but I hope we can just climb consistently up. After all, this school ten years ago had $1 million. These Baptist schools, with the exception of Wake Forest, have a very small endowment. In terms of our development program, we are way behind. We have to get a new drive, new continuing drive into the effort. We have to bring more professionalism to development. I'm just back from a fund raising conference. This is very much in mind now. We ought to have a man getting Stetson included in estate planning of wills and deferred gifts, etc. We ought to have one man in this who does nothing else but this.

RESEARCHER: Do you have an organization chart for the University now?

GEREN: We've got the last one and we've got, in Ted Banks and my minds, the next one. Yes, all of this has been very faithfully drawn up. They need reordering to reflect the most recent changes. I'll get you a copy.

RESEARCHER: On the subject of organization, tell me a little bit about how you view the role of the trustees, particularly in the area of finances, public relations and, the major one, educational policies?

GEREN: Well, I consider them the ultimate governing body of the university. I think their biggest task probably is to pick a president. I think, for the ongoing administration, they have to pick their man and turn it over to him. I don't think they can make day-to-day decisions. I think that they form policy in a very wide sense and set the major lines that should be followed. I had some new thoughts on their responsibility in the university in the fund raising realm. I did consider fund raising a very basic responsibility of the trustees. Some college presidents formula is that a trustees' business is "to give, get or get off." I think now along with Umbreckt at Knox who said he didn't view it that way. He had his group of trustees broken up into three or four specialties. He mentioned the former dean here, who's now the Chancellor of the North Carolina system at Charlotte, who is on his board. He has two or three other college deans or presidents. They serve as specialists in academics. Then he has two or three investment people and they look after the investment of the Knox endowment. Then he has two or three building people, building specialists, and he has three or four industrialists, big businessmen. He has it divided out like that.

RESEARCHER: Do you think educational policies should be set by trustees?

GEREN: Only in the very broadest sense, that is, if you are going to have an integrated school, I think the inspiration will come from the faculty but the president has to get trustees to go along. In other words I don't see how you can make that decision without getting the approval of the trustees.

RESEARCHER: Let's use the example that Ted Banks mentioned; the Brevard County Extension. How did that come about?

GEREN: The people in the country have been after us to come on down there. What we have at this stage is simply an extension of Stetson University. We want to make it a branch of Stetson University. We certainly must get the trustees' blessing for that.

RESEARCHER: What you are going to do is send three, four, or five of your faculty down to teach in a school there and give extension credit for it, which will in effect be credit here at Stetson University.

GEREN: Right, but before the program is more than a year old, we hope to have the land given to us, the facility built, and to have another campus there.

RESEARCHER: Moving to another subject. What's involved in the process of hiring and retaining faculty?

GEREN: Here it's a matter for the dean; the department chairmen and the dean. They look for them, they pass on the word to friends that we are looking for a chemistry professor, for example. Invariably when we get to the real serious stage and the person comes here, he stays a day or so and talks to me and gets an idea of what the school is like, the real estate available, etc.

RESEARCHER: Do you offer tenured positions to people in the beginning or do they have to go through the process?

GEREN: They go through the process. The set up for a beginning instructor is three years and then either up to the next position or out. Most of the people get tenure if they are young people after they have been with us at least five years.

RESEARCHER: It's not an automatic thing?

GEREN: No, it is not an automatic thing. In fact I think our bylaws--you ought to have a copy of that--have a word about tenure. I think that it should at least be different for people of different ages. In other words if we get a man who is 45 or 50 years old and he is a full professor in an esteemed university, we shouldn't offer him tenure to begin with, but after one year, we ought to offer it to him. But with a younger person, it should take more time to achieve tenure.

APPENDIX C-2

EXCERPTS OF INTERVIEW WITH
JOHN E. JOHNS
BUSINESS MANAGER
STETSON UNIVERSITY

RESEARCHER: One of the strategies at Stetson is to grow at a steady rate to provide the students and the economic base for the programs it wants to offer. You and several other officials have been involved in some long-range planning. Have you set a target number?

JOHNS: We think we can increase enrollment by 700 students on both campuses in 10 years. This is a smaller percent of growth than the state as a whole will realize but that is the status of private education today. Our figure considered Florida's growth, which has about 3500 new people moving into the state each week, and economic growth which we expect to be substantial. It also considers the "Regeant's Scholarships" that will be offered by the state this year for the first time. These scholarships will pay up to $1200 tuition to any student graduating from an accredited high school in Florida and entering an accredited college or university in the state. If the institution's tuition is less than $1200, the entire amount is paid. If it is over $1200, only $1200 will be paid. This is true whether he enters a state or private college. We have about 75 of the entering freshmen applying for "Regeant's Scholarships."

RESEARCHER: I notice that you have the academic rank of Professor of History and Political Science and that you have tenure. Perhaps you could comment on the relative influence of the faculty and administration in decisions at Stetson.

JOHNS: The faculty here is a very strong infleunce and this is intentional on our part. We are not likely to accomplish anything unless the faculty is included in the decisions. We have a Faculty Senate composed of members with faculty status elected by ballot. In the past this group has exercised a considerable restraining influence but with a new president who is active, as opposed to the "absentee president" we previously had, I think more balance will be achieved.

RESEARCHER: I understand that you are operating under instructions that there will be no operating deficit in the coming school year. Is this a trustee directive and how do you plan to impliment it?

JOHNS: Yes, it is a Trustee directive although it came to us from Dr. Geren. You must realize that this deficit was totally unexpected and Dr. Geren was hit with it immediately upon his arrival last year. It was necessary that some action be taken. The deficit arose because we did not receive the "Gifts and Grants" we expected (about $180,000 less than expected) and we paid out about $65,000 more in "Student Aid" than expected. We did better in some other areas so we finally ended up with a $85,000 deficit. This coming year we have budgeted very conservatively anticipating that we will operate with revenue projected somewhat more realistically. We also are increasing salaries by a smaller amount in 1968-69, but proposing a larger increase in the year 1969-70. Then, we are not adding any new programs that cannot be seen as self-supporting. Beyond this we are expecting to increase "Gifts and Grants." We have hired two sets of consultants to help organize a program for this purpose. The first dollars we get from increased giving will pay for the consultants, the next will go to the operating budget, and any remaining funds will increase endowment. There are not many alternatives open to us without cutting into the strength of the university and letting a lot of people go.

RESEARCHER: Do you have plans for capital additions in the near future?

JOHNS: Yes, I'll give you a copy of our "profile" resulting from a long-range planning study we have been involved in. In it you will see that we are projecting only the very essential additions. We have learned from experience not to make additions to the plant that have to be paid for and operated from current funds.

APPENDIX C-3

EXCERPTS OF INTERVIEW WITH H. GRAVES EDMONDSON, JR.

COMPTROLLER, STETSON UNIVERSITY

RESEARCHER: Your responsibility is for the preparation and control of the annual operating budget. Can you tell me the procedures you go through to put each year's budget together?

EDMONDSON: The process begins with the department Chairman who prepares his own request for additional faculty, for merit increases in salary of their people, for supplies, small equipment, etc. They submit them first with no amount for salaries to their deans. The deans then go over the requests and discuss them with each department chairman. After the dean feels that they are reasonable, I begin to put the total budget together and include the present year's salaries plus a "kitty" for increases to be disbursed by the president and the deans. Usually, they consult with the department chairmen and give increases based on their opinion of the merit of the individual faculty members. With this I summarize the budget and submit it to the President, who in the meantime has been consulting with the deans about salaries. So salaries are set by the combined effort of the president, the deans, the Business Manager and usually the department chairmen.

Once the president approves the coming year's budget, it is submitted to the Budget Committee of the Board during December. They go over it in great detail and then it is submitted to the full Board in February. This is usually a general approval since they know that it has been reviewed in detail by the Budget Committee.

RESEARCHER: Then, your budget is approved in February and I imagine that salaries are contracted by April or May. This means that the bulk of your expenditures have been committed but you don't know whether your estimates of revenue for the coming year will be realized or not. What would you do if enrollment was down by, say, 200 students or your "gifts and grants" income did not materialize?

EDMUNDSON: That's a good question. Actually, I recall a situation several years ago just like that. We had been through a period of several deficit years and finally achieved a surplus year, I think it was in 1957-58. Then, when the school year 1959-60 opened, we found that we were faced with a deficit of perhaps $200,000 or more, I don't remember exactly. This was after a vow that everyone, including the trustees, made not to operate at a deficit again. A committee was formed, of which I was a part, to investigate means of eliminating the deficit. We suggested possible savings of about $125,000. We called in the people involved and after much negotiating we were left with a potential saving of only

$50,000. Then, after further discussion, it was felt that the damage to our image with the public, students, and faculty would outweigh this small gain. The end decision was to borrow to finance the deficit.

We are faced with about the same situation now. We will have a deficit for 1967-68 for the first time since 1959-60. Proportionately little can be done to reduce expenses. We have minimized salary increases for 1968-69 and limited new programs to those that can support themselves. We must increase "giving" to overcome the deficit.

APPENDIX D-1

EXCERPTS OF INTERVIEW WITH
PRESIDENT ROBERT E. R. HUNTLEY
WASHINGTON AND LEE UNIVERSITY

RESEARCHER: I think you have identified some very specific strategies and you mentioned that these were developed in conjunction with the Board of Trustees. What awareness and what involvement was there on the part of the faculty in establishing these objectives?

HUNTLEY: The faculty is a very strong force on this campus. I don't want to overstate this. I am not sure anything happens here without the faculty participating in it. The budget is actually adopted only after faculty needs are satisfied. No faculty committee consults about the budget but it's a strong indirect influence. The faculty is entrusted with the responsibility for deciding on all the educational goals and decisions. Of course, the Board of Trustees has final authority on everything.

RESEARCHER: Suppose you wanted to put in a Master's Program in business administration?

HUNTLEY: The faculty would have to initiate this. The Board's approval would be sought after the faculty had passed the plan. Based on past experience, I would assume that the Board would be very unlikely to veto the faculty. Any significant policy change would require Board approval but significant policy changes that affect the educational affairs will be initiated by the faculty.

RESEARCHER: I assume that at least your three academic deans are involved in establishing their budget.

HUNTLEY: Every department is involved.

RESEARCHER: Every department chairman makes up a proposal for his annual budget?

HUNTLEY: Every department chairman submits a regular budget request which works very well. You might want to mention this to Jim Whitehead, the Treasurer. We started this about 4 years ago, and it really has come into full blossom in the last two years. It is working very well. We had some misgivings about it for the obvious reasons. Can you really call on people whose interests are primarily academic to concern themselves about such mundane things as budgets? And if you do call on them, will they really give it serious attention? Well, the answer so far has proved to be very encouraging. They pour over these budgets in great detail. We haven't thus far detected any significant tendency on the part of the department heads or the deans to simply ask for the maximum and expect the treasurer to decide what they are going to get. We have had to do almost no cutting, which is a very encouraging sign.

RESEARCHER: What information do the chairmen have when they make up a budget?

HUNTLEY: They have the total budget from the University. They are given monthly reports on their own status automatically from the computer. They know at all points exactly where they stand on every account in their budget. They consult individually with the treasurer so that he can make known to them the general financial situation. They make known to him their hopes and he gives some response to them as to how far they might be able to go in the coming year.

RESEARCHER: Do they hire the people in their departments?

HUNTLEY: Not teaching personnel. If an additional man is needed in English or if the department chairman thinks they are going to have a need, he must first create a position before he decides whether to fill it. He would make this recommendation to the dean of his school. If the dean recommended it, it would come on to me. It would not have to go to the Board unless it's a tenured position. In filling a vacancy or new position, the dean works very closely with the department heads; and the department head takes primary responsibility for locating the person he wants to employ. He brings them to the campus, interviews them; they talk with the dean, with me, and possibly with the members of the President's Advisory Committee. In any event they always talk with me. Tenured appointments must go to the Board. If it is a non-tenured position, it doesn't go before the

Board except each period we give the Board information about the people who have been hired. The promotion to a tenure position also must go to the Board.

RESEARCHER:	Let's talk about resources for a moment--resources meaning people, money, buildings, etc. How many faculty members do you have?
HUNTLEY:	135 or 140.
RESEARCHER:	Administrative personnel?
HUNTLEY:	If you mean by administrative, exclusive of secretaries and clerical assistance, I would say about 20.
RESEARCHER:	Judging from what you say I would imagine that your faculty is adequate to do what you are talking about.
HUNTLEY:	For what we are doing now, the faculty is adequate in size. The faculty-student ratio is about 11 to 1. We have them in the right place, but I'm sure we could determine that Department X has one more man than it needs and Department Y has one less so I wouldn't want to suggest that every department arrangement is perfect. The faculty has increased by 22 positions since 1961. The student body for that same period has increased by about 100 men. The faculty salaries have gone up a great deal. You asked me about employment of faculty members. Faculty salaries are not published. They are confidential. This is part of the school's view that compensation within each rank should be based on merit. We have no fixed faculty salary scale. Nor do we have any fixed faculty

structure between ranks much less within ranks. There is no *a priori* decision that we can have one full professor in fine arts or two associate professors. There are departments here that don't have anything but full professors. There's no structure that prevents a good associate professor from becoming a professor. There's no structure which insists he will become a professor either. Some of them remain an assistant professor for a very long time.

RESEARCHER: You have a fairly large endowment. You seem to be looking to endowment as an answer to your financial problems.

HUNTLEY: A source of income for operating expenses.

RESEARCHER: How large is your endowment?

HUNTLEY: About 23 to 25 million dollars. A good deal smaller than many people think.

RESEARCHER: How large do you think it should be?

HUNTLEY: I doubt if anybody has a formula for this but we ought to try to add $1 to endowment funds for every $1 we add to capital improvements. This would produce approximately the income necessary to support the new facility. Suppose we bought $10 million worth of new facilities and that is about what our future needs total up to. Probably $8 to $12 million. Nobody knows. We haven't drawn up the plans yet. If we did, I would judge that we would be in serious trouble if we didn't add at least the same amount to the endowment funds. I don't know the answer. It's a question to be answered.

RESEARCHER: You are talking about using the endowment fund to generate income to operate the new facility. It's the kind of idea that I think Harvard now takes. They won't put up a building that is fully funded by a gift until they have endowment income to operate it.

HUNTLEY: There's no doubt about it. A lot of schools are in trouble because of this. That makes it more complex. To put "bricks and mortar" on the list as top priority results in slighting the faculty salaries to take into account the increase in expenditures that new facilities invariably bring.

RESEARCHER: Do you plan to maintain the ratio of 50% current revenue coming from students?

HUNTLEY: We will try.

RESEARCHER: That means that the other 50% must come from gifts, grants, or endowments. Is that going to be a deciding factor in how big an endowment has to be?

HUNTLEY: That's right. It's going to have to be big enough to provide a larger fraction than it now provides. Certainly the same fraction. Endowment produces around a fourth of our income now. Tuition around a half. The other fourth is made by annual giving programs and special gifts. The endowment fraction I would guess is going to have to increase. Even if the fraction doesn't increase, the amount of endowment is going to have to increase because of rising costs. And, of course, annual giving will have to increase. It has gone from $100,000 nearly 3 years ago to nearly $300,000 this year, --in annual alumni giving, that is--direct giving to the alumni fund. At this moment it is about $280,000. When the books have been closed and all the gifts are in for the last year, it will be $300,000. I would judge that somewhere in the next decade, it's going to have to go to somewhere around $700,000 to pay the same fraction of revenue as we have now.

RESEARCHER: Fund raising is a large part of the job of every college president, also planning of facilities, and hiring people. What about the area of educational or academic programs? Do you get involved in this?

HUNTLEY: Yes, I do.

RESEARCHER: To what extent then do you think this is part of the president's job?

HUNTLEY: Here I think it is the president's responsibility to guide, be the focal point of the decisions to be made. I don't have the qualifications (I wouldn't want to exercise the responsibility if I did have) to be entrusted with the decision of making educational policy. But I do think that the president has to act as the focal point in this decision-making process. He does act. There are 12 men who report directly to me. This may be too many, that's true. The decision-making process on educational policies starts with the faculty committee, but in many instances, the stimulus that causes these committees to be appointed or brings things to the attention of the faculty will have to be the deans and the president. Ideas that are initiated by the faculty committees have to receive some reaction from the administration. That's a part of the whole picture. What the future holds is something I don't know. It's a matter of concern to us. I don't have the qualifications to do many of the things I'm going to be called on to do. Even if I had all these qualifications, I'm not but one man. I can't be on the road all the time and here all the time.

RESEARCHER: Do you have an organization chart?

HUNTLEY: Why don't you ask Frank Parsons for that?

RESEARCHER: Fine, I'm still not clear about the role of the department chairman in the budgeting process. Take any department that you want; one in which you have people who have tenure, the department chairman can't do very much about retaining or compensating this person. I believe you said that he is not aware of what the faculty salaries are.

HUNTLEY: That's right. As far as salaries are concerned, he knows the total figures of his whole department. This wouldn't work in large institutions. This is one of the many factors that is an advantage in an institution that is small. It is small enough for the dean to be close to the departments. There are 18 departments in the college and a half-dozen in the Commerce

School. There are none in the Law School. Each department head consults personally with the dean about the successes or failures of his various faculty members. That discussion leads to a decision. Should that man be treated in an especially good way in terms of salary or should he be held at a low rate? The dean makes a decision and he makes the recommendation to me.

RESEARCHER: What do you expect the chairman of the department to do about the budget?

HUNTLEY: I think it is important that salaries are decided first. For example, in the 1968-69 budget about $2,700,000 is payroll. Not just teaching payroll but teaching payroll is by far the biggest portion of it. Everything plays second fiddle to faculty salaries. How long that will be feasible, I don't know. But it does reflect the philosophy that the faculty asset is the greatest asset that we have. If we lose that, all the buildings and financial aid, etc. are of no value whatsoever.

The department chairman then using last year's budget, if he wants to, sets forth his accounts for all the expenditures he anticipates for the next year. He does not make up a budget for janitorial services or for other services that are dispensed on an equal basis. The treasurer meets with me and each dean. Then the treasurer and I meet with the budget committee of the

Board. We go over every item of the budget line by line. We just started this procedure this year. It worked very well. It has two advantages. One of them is it requires the Board to work with the school. It is time consuming for the Board members, but they seem to like it. It is interesting to note that--

RESEARCHER: Your concept of tenure here is that of AAUP?

HUNTLEY: Right. That is, the time sequence, notice provisions, etc. are precisely drawn from the AAUP guidelines. They are set forth in a written document. I suppose the only thing that I could add to it is this. The tenure situation does pose a dilemna sometimes, probably in every institution. The dilemma is a clear one. A man, let's say, reaches his 6th year in teaching. The decision finally has to be made. Is this man going to be given tenure status? Perhaps he has only been with you 3 years. The rest of the six years elsewhere. Or perhaps for other reasons you have not been able to judge him as objectively as you wish. You are not sure whether you want to have him forever or not. All the pressure is in the direction of resolving the dilemna against him. That's the pressure of the tenure provisions. The tendency is to say, well we can't take a chance. We're just not sure. Therefore we will have to give him his notice. That's the pressure that tenure regulations bring to bear on administration.

RESEARCHER: It seems to me that you take this tenure concept fairly seriously.

HUNTLEY: I should say so.

RESEARCHER: It's not just a formality; "you put in your time and you get tenure."

HUNTLEY: No sir. There are several ways in which a man might get tenure. He might be brought in with a tenure position but it's not frequent. Perhaps we have a need for an experienced person in a given field. We find a man we would really like to have but he can't be hired by offering him an assistant professor's rank or a non-tenured position, we would award tenure right "off the bat." More often, it occurs from having spent a certain number of years teaching. Each dean reviews with me each year the tenure status of every man under him. We don't want to allow a man to get tenure unless a deliberate decision has been made that we want this man to get it.

RESEARCHER: I think this is a very key matter. It seems to me as we look at the budget no less than 85% of it is fixed. You can't change it. You're locked into it. So I think it is very key then that these tenure positions be scrutinized. I think it is also important that you take a long-range viewpoint of your financial affairs.

HUNTLEY: You're certainly right. There's very little uncommitted in an institution like this one, financially. Most of the costs are fixed. For the most part there is nothing we can do about our operating budget to cut it. It is increasing at a rate of about 10% a year. There's not anything on earth that you can do about it without curtailing seriously the objectives of the school. The decision is almost an automatic one. We give it a lot of attention. We try to identify each item. They are highly analyzed, much more highly analyzed than they were a year ago. It's all on a computer. You get a print-out to every department head every month and to me. We discuss every item on it. Notwithstanding all that, your point is quite valid. Most of the items on it are as if they came from outside.

RESEARCHER: Then, in spite of the fact that you have the department chairman involved, control is still going to have to come from the administrative side and with a long-range approach.

HUNTLEY: That's right. Faculty salary is the biggest item. We compare quite favorably with other institutions throughout the country in that area. There has been great improvement in the last decade. The pressure is obvious as far as faculty salary goes. It is constant and very inflexible.

RESEARCHER: In this study I plan to devise a method of relating the long-range operating revenue and expenditures to the strategies that we were identifying earlier. I hope to have a system of identifying every strategic expenditure and its contribution to the long-range objectives of the University. The dollars spent in departments ought to be contributing to one of the strategies. A good part is going to be contributing to the one strategy of continuing existing programs.

HUNTLEY: Right.

RESEARCHER: This, it seems to me, is the kind of control that you are going to have to come up with and what I'm looking for now are your opinions. Is this a valid approach? The approach outlined in the paper I sent you?

HUNTLEY: I guess it is . There is very little room left to meet the requirements of the day or year; little room left for long-range planning. We have to find some way of doing more of it. There's no doubt about that. This institution is financially healthy, that is we meet our operating expenses and we have been able to accommodate the kind of growth we want in terms of faculty size and salary and facilities. It's healthy in that sense. We are not operating in the red. We haven't dipped into endowments or expended capital gains. I hope we don't have to. But to sit down and say we would like to develop new objectives, a new program which will over the next decade cost us so much; from that point of view, there is very little operating room. We are operating right on the margin every year. The pressures are greater this year than they were last year and so on. There's less of a cushion now than there was five years ago, as far as surplus goes. That would be the only qualification to your approach.

In other words the economic pressures are fully apart from the philosophy.

RESEARCHER: My model is kind of disciplinary. It makes you think in terms of where are you going to get the money for the buildings, to operate--this kind of thing.

HUNTLEY: Much more of that has to be done here and at other institutions. We are working hard in that direction. The Office of Development is a brand new office. It's been down there six months. This office is more than just a fund-raising office. It will be the office which attempts to draw together all the strings and tries to give an answer to the questions which you are raising. We are just at the beginning. We've already retained consultants to help us. Not merely fund-raising consultants, I hope. It is quite possible that they would work with the treasurer, and with me and the dean. He is, I think, equipped to do that. The objective is to try to be able to provide or at least to raise meanings to the questions you have just suggested. We are not in a position to do that now.

RESEARCHER: I don't think many schools are really. I don't think you are completely alone in that sense. But again getting back to my comparison with industry. They have a profit to worry about. It says that they must know where the dollar is coming from for every investment they make. Up to now most colleges have been able to get money by a campaign and this sort of thing, but it is getting harder.

HUNTLEY: We know that it is getting harder.

RESEARCHER: Maybe this is a question that needs to be answered. Is it getting harder to raise private funds?

HUNTLEY: That's one that has to be answered. I've said publicly more than once that we have to know the answer to that question within the next five years. If we have the answer and it is a negative answer, nearly all of the objectives of the school would have to be changed. At the moment we are preceding on the assumption that major funding for our future needs can be found principally from private sources. If that assumption is wrong, and it may be, our objectives are going to have to change. Physical needs you see identified in the list we just completed are well agreed upon. We will know what costs are involved before long. So we ought to know before much longer approximately how much money we are going to have to raise from non-tuition sources over the next decade. What we will try to do in the next 2 or 3 years is to prove that private money can be gotten with us still pursuing the objectives I've mentioned.

APPENDIX D-2

EXCERPTS OF INTERVIEW WITH
JAMES W. WHITEHEAD, TREASURER
WASHINGTON AND LEE UNIVERSITY

Much of the discussion with Mr. Whitehead was a reitteration of President Huntley's interview. The following information is presented to support conclusions drawn in the analysis of the research.

RESEARCHER:	What is the function of the treasurer's office at W & L?
WHITEHEAD:	As you have probably found out, we think of W & L as a teaching institution and in this office we concur in this concept completely. Teaching means faculty, and our job is to do all we can to supply the faculty with the equipment, supplies, staff support, and other needs that will help them do a better job.
RESEARCHER:	I also understand that you have been using for about three years a budget system that involves the faculty, at least the department chairmen.
WHITEHEAD:	Yes, we first asked the department chairmen to prepare three-year forecasts of the needs of their department for people, equipment, supplies, etc. Actually these are very rough estimates but we do allow them to revise each year. From this we at least have an idea what each chairman is thinking and whether or not he sees additional growth in his area. Also, it makes him think about the long-range future of his program. In addition, we ask each chairman to prepare an annual operating budget

for his department for equipment, supplies, and other expenses. He also tells us how many people he thinks he needs but he does not budget dollars for this. Our policy is to disclose no one's salary. Only a small group including the president, the deans, and myself see faculty salaries. The department chairman's responsibility is only for number of people. We give each man a monthly report of the status of his budget. Incidentally, these long-range forecasts help us inform parents about what the expected tuition will be during the four years their son is here. We do not guarantee the tuition, however.

RESEARCHER: I am beginning to form the opinion that no less than 85% to 90% of the annual operating budget of a college or university is "fixed." At least, once you have settled on the size of next year's faculty, it becomes "fixed." Also, the amount of your endowment income is relatively constant for a given year, and gifts and grants from private and government sources are beyond the control of the University to a large degree. This leaves student charges and number of students as the only flexible factors in your budgeting process, doesn't it?

WHITEHEAD: That's right. For a single year we can do little to increase our outside income and our operating costs seem to go up about 10% every year. To offset this, we have raised tuition to some degree but the important factor is that we keep the required number of students enrolled. This has not been a serious problem so far because we normally have about 1500 applicants for admission each year, I believe, and we can only take about 500 freshmen. Like all other private schools, we are concerned about the future, but I can't say that we are worried about it yet.

RESEARCHER: This raises another point on which I would like your opinion. What is W & L's capacity and how do you determine it?

WHITEHEAD: This is not an easy figure to pin down, but we think we can handle about 2000 students with existing facilities, except for the gymnasium and the library perhaps. As you know, we only require freshmen to live on campus and, in fact, we don't have more than 80 students, other than freshmen, in dormitories, so this is only a restraint in the freshmen class. Our dining hall is adequate under present conditions. For us the major restraint on the number of students we can handle is our philosophy of small classes with individual attention to the students by the faculty.

RESEARCHER: I have one other problem that you can help me resolve. In industry you often find corporations developing "rules of thumb" about their debt capacity, for instance a corporation might adopt the position that they should be capatilized with 50% debt and 50% equity. Is there such a "rule of thumb" in higher education?

WHITEHEAD: I've never thought about it very much. Our indebtedness is now less than $1.0 million dollars and in relation to our assets that isn't very much. I suppose it is a question we need to answer though. It seems to me that it will depend on the type of debt. If it is on a self-liquidating investment such as a dormitory, it would be limited to the ability of that investment to generate funds to repay the principal and interest. If the debt is for a purpose other than a self-liquidating investment, it seems that the ability of the institution's current revenue to meet repayments would be the key factor. As a school gets more heavily into debt than we are, they would be even more pressed to keep the number of students near capacity to be sure that they could repay. This is getting close to the heart of the problem of some of the schools that have developed "bricks and mortar" complexes.

APPENDIX E

PARAPHRASED EXCERPTS OF INTERVIEW WITH
FREDERICK C. JOERG
ASSISTANT DEAN OF ARTS AND SCIENCES
DUKE UNIVERSITY

RESEARCHER: Would you outline Duke's objectives in the areas of teaching, research, and public service?

JOERG: Our ultimate objective is to become a national university with the reputation for the highest academic standards. Of course, we do not intend to become a large national university such as you find in some of the state institutions. We will probably be a reasonably small institution by comparison. We now have about 7500 students and we expect a modest rate of growth but there is no major emphasis on expanding dramatically. We are a national university now, as you may know. Only 20% of our students are from North Carolina. The other 80% come from 45 different states and a number of foreign countries.

In the specific area of objectives for our teaching efforts there are several programs I should mention. In the near future we will begin operation of the Computer Science major. It was approved by the faculty and trustees this year. We are now assembling faculty and resources to initiate a Graduate School of Business Administration as soon as possible, which may be by

Fall, 1970. This has also been approved. Both of these programs will include courses now in existence in Arts & Sciences. All we are doing is reorganizing into a separate school. We have a long established Marine Laboratory at Beaufort, North Carolina which we will expand. In addition to these changes and the usual changes in course offerings, the most exciting thing we are doing is proposed in the "Varieties of Learning Experience" report made by the Subcommittee of Curriculum to the Undergraduate Faculty Council (Exhibit E-1). The changes proposed and approved in this report are quite sweeping for us at Duke. Generally, they are aimed at allowing more time for the student to indulge in independent study and to become involved with his professors on more informal and personal bases. It is intended to meet the needs expressed by students today for more flexibility in their learning experience. You can get the details from a copy of the report. Our graduate programs and the programs of the professional schools are well developed and continue to receive substantial support and to be improved.

Our research efforts are decentralized and handled by the departments and by individual faculty members. The University does practically no contract research, but the faculty is involved substantially in research projects in practically all fields. We do help them find sources of grants but the initiative must be theirs. In addition, we have a modest budget for research support using University funds. This effort is supervised by a faculty committee. There is a place for research at any university but our feeling is that it is a faculty responsibility and, in fact, that responsibility is assigned by our By-laws. It states, "The University faculty shall be responsible for the conduct of instruction and research in the various colleges and schools in the University." Our objective is to keep it this way.

We certainly have an implicit objective in the area of public service to use our resources for the public good. This takes many forms. Our faculty and administrative staff is involved in some local projects, we have a number of distinguished faculty members participating at the national level, we have a "Head-Start" program, we just sold some University's married-student apartments to the city for housing needs, we are involved in the Regional Educational Laboratories, the cultural aspects of the University certainly benefit the community, we offer a number of seminars of national interest each year, and certainly the medical research here has made tremendous contributions with a world-wide impact. Our objective is to continue all these things and to engage in public service consistent with our resources.

RESEARCHER: The environment for private higher education is in a state of transition as all of the college presidents with whom I have talked have attested. It is affected by federal involvement, increased size of state-supported education, fluctuating interests of church constituencies, and the changing interests of students. Would you comment on these things as they might apply at Duke?

JOERG: We are concerned about these environmental factors, too, but we probably are not as concerned as the other four schools with whom you have been working. I think size does enter into an institution's ability to cope with its environment. We do receive substantial federal funds for construction projects and for research by our faculty. This type of revenue, while it is substantial, is not as large a proportion of our budget as it might be for some of the smaller institutions you have been dealing with, particularly state-supported institutions.

There is no question about the growing interest in state-supported education; in the two-year community colleges as well as the four-year schools. Several things help Duke avoid direct competition with the state schools. First, our national reputation gives us a much larger "market area" than a smaller private school which means we ought to have more high school graduates from which to attract our students. Second, we require a high standing in high school plus a combined high SAT score. This means that we are not in competition with the community colleges. Finally, only about 21% of our "Current Revenue" comes from student charges. The rest is from endowment, gifts, grants, and other sources (Exhibit VI -D3). This provides considerable cushion for us. Our main concern is that we don't become complacent but, I think, our new curriculum should indicate that this is not likely to happen. Even though our tuition is $2000, we still think we can attract students.

We do not have a problem with our association with the Methodist Church. They provide some support but they don't own the University. They don't require any members of the Board above the stipulated group in the by-laws to be Methodists. Also, there is no stipulation about faculty or staff being members of the denomination, and the Methodists do not impose any type of restriction on us. We are very happy with the association and want to maintain it. We do not see any source of conflict between our church association and other sources of funds.

As far as changing student interests are concerned, we are certainly doing things to provide the type of education they seek consistent with our responsibility and judgment. I think the new curriculum speaks to this point and indicates our concern.

There are some people who feel that a trend away from dormitory accommodations is developing. Students, they say, do not want to live in dormitories. At present, 90% of our students live in dormitories; and, as long as we are attracting students from all over the country, we expect this will continue.

RESEARCHER: I would like to discuss the decision-making process at Duke. Can you tell me how decisions are made in financial matters, in public relations, and in academic policy matters?

JOERG: Since you are comparing capital expenditure decisions in higher education and in industry, we might use capital expenditures as a means of high-lighting the financial decision-making process. Usually the initial request for additional academic facilities comes from the academic departments and we require the source of funds for a project to be known when it is proposed and certainly before final approval. As an example, we are constructing a new Chemistry Building. The Department proposed it and came to the Educational Facilities Committee for initial approval. This is basically a faculty-administrative committee, one of whose purpose is to review major proposals for academic facilities. In no case will academic facilities be financed by debt or by appropriations from current funds except as noted below.

Projects recommended by the Educational Facilities Committee are referred to the University Policy and Planning Advisory Committee. This is a high level committee of faculty and administrative officers reporting to the President.

In addition to recommending these proposals, this committee also spends considerable time planning the development of the University. They also are concerned with facilities other than those directly related to academic programs, such as dormitories, student center, etc. I should point out that we could get into debt financing when a self-liquidating venture such as a dormitory is involved. If this committee, which is chaired by the President, approves a project it is recommended to the trustees, who give final approval. No project is approved unless it is fully funded.

Public relations are handled by the Development Office. It is part of our Institutional Advancement function. These types of decisions are almost entirely administrative in nature.

Academic policy is entirely the responsibility of the faculty. This is spelled out in the statement I just quoted from the Faculty Handbook (Exhibit E-2). The trustees only get into academic decisions when major program changes are under consideration such as the School of Business Administration proposal and the Department of Computer Science. Proposals are submitted by the academic departments to the Sub-Committee on Courses of the Standing Committee on Undergraduate Instruction. I am speaking only for Arts & Sciences now. Major changes in programs involving a number of courses are submitted to the Sub-Committee on Curriculum. If changes are approved at this level, they are submitted to the Undergraduate Faculty Council. If approved at this point, the change can be implemented. As I stated, only changes of the nature of a new school addition would be further submitted to the Trustees.

We have a form on which all changes in courses must be submitted. There is no question about the type of information we want. We do not ask for financial justification, but I am on both of the sub-committees and I usually raise the financial questions. Generally, the process I have outlined is followed in the other schools.

RESEARCHER: You have given me a copy of the Faculty Handbook which includes an organization chart (Exhibit VI -D2). Is there anything about it that needs to be amplified?

JOERG: Like any other organization as large as Duke, our chart is out-of-date almost as fast as we can get it printed. We are considering a reorganization now, as a matter of fact. There needs to be some kind of dual role at the top but with one person ultimately responsible. I don't know what will be the final result of our discussions but there will likely be some changes.

RESEARCHER: Can you describe your information system, particularly the manner in which financial information flows through the organization?

JOERG: We just this year completed a revamping of our system of accounting to provide us with a unified chart of accounts for the University. Our operating budgets are prepared at the department level and submitted through the offices of the deans which ultimately are incorporated in the University budget. I have already commented on the fact that departments also have a responsibility for the capital additions in their academic program including the source of funds.

The details of Academic Tenure rules are stated in Section II of our statement on "Academic Freedom and Academic Tenure." You will note that continuous employment after seven years or positive action by the Board of Trustees or the Executive Committee confers tenure. Appointment or promotion to the rank of Associate Professor or Professor for full-time service, unless the duration of the appointment is stated, also confers tenure. A department can recommend tenure for a faculty member of regular rank. The Dean, through the Provost, can ask the Board to act on the request.

We are committed to the AAUP "A scale" at all ranks and we think we should scrutinize appointees closely to maintain a faculty of the quality indicated by the highest pay scale.

EXHIBIT E-1

FROM "VARIETIES OF LEARNING EXPERIENCE"[12]

IV. SUMMARY OF PROPOSALS.

FIRST PROPOSAL.

That the University measure academic progress in terms of semester-courses (and half-courses and double-courses) satisfactorily completed rather than in terms of semester hours, and that four courses per semester be considered the normal academic load of a student working toward a Bachelor's Degree in the liberal arts and sciences.

SECOND PROPOSAL.

That Program I be a satisfactory curriculum to replace the present requirements for the degrees of Bachelor of Arts and Bachelor of Science listed on pages 6-10 of the Bulletin of Duke University: Undergraduate Instruction, 1967.

I. Distributional Requirements: Subject Matter.

A student must pass courses in each of three divisions: social sciences, natural sciences and mathematics, and humanities. He may choose from courses in which the essential subject-matter and substance of the discipline are presented. He may not, however, satisfy the distributional requirements by taking elementary-skill courses;

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[12] Study and proposals for a major curriculum revision in the School of Arts & Sciences.

a list of such skill courses appears in Appendix E.

A. A student will pass the appropriate number of courses in one division required by the department or departments in which he concentrates.

B. A student will pass at least four semester-courses in a third division.

II. Skill in English Composition.

All students are required either to demonstrate competence in writing good English on their arrival at the University or to pass a one-semester remedial course in English composition, which they should begin in their first semester.

III. Learning Experience.

The student is required to have the following varieties of learning experience:

A. Freshman year.

1. A seminar in one semester

or

2. A preceptorial, discussion section, or tutorial during both semesters, as the terms seminar, preceptorial, discussion section, and tutorial are defined in the preceding descriptions.

B. Sophomore year.

The same requirements as in the freshman year.

C. Junior and Senior years.

1. A combination of seminars or independent study with credit equal to at least two courses,

or

2. A thesis or an independent project at some time during his junior or senior years for which he would receive credit for two courses.

IV. Concentration.

A. Major.

A major consists of at least five courses in one department above the introductory level. A department may not require a student to take more than eight courses above the introductory level in the major, though the student may elect to do so.

or

B. Interdepartmental Concentration.

Interdepartmental concentration consists of at least three courses beyond the introductory level in at least two departments, and requires the approval of the Directors of Undergraduate Studies in the departments concerned.

V. Advanced Work.

A student must pass at least twelve semester-courses at an advanced level.

THIRD PROPOSAL.

That Program II be a satisfactory curriculum to replace the present requirements for the degrees of Bachelor of Arts and Bachelor of Science listed on pages 6-10 of the Bulletin of Duke University: Undergraduate Instruction, 1967, and that the Undergraduate Faculty Council establish a Committee on Program II which must (1) approve students recommended by departments for acceptance in Program II and their courses of study, and (2) must recommend students proceeding through the program for graduation. In addition,

I. The Committee must approve a written statement submitted jointly by the student and department or departments of his area of concentration defining the objectives of the student's curriculum and the means for accomplishing these objectives.

II. The Committee must approve any changes in the student's program.

III. Yearly check-sheets showing the progress of the student's program must be submitted to the dean.

FOURTH PROPOSAL.

That the University develop special curricular programs which students might elect, and which would offer common courses of study; such programs should satisfy some of the curricular requirements for graduation.

FIFTH PROPOSAL.

That Graduation with Distinction be governed by the following statement:

> Graduation with Distinction. Programs featuring independent study and other honors opportunities are available under the title Graduation with Distinction in the majority of the academic departments. Although the details and requirements of the program vary from department to department, certain general requirements are uniform. Each department participating invites, at the end of their sophomore or junior year, those students who have maintained at least a "B" average in the major field to enter the Graduation with Distinction Program. After participation in a seminar in the junior or senior years, and/or a directed course of reading, laboratory research, or other independent study, the student must embody the results of his individual research and study in a distinguished piece of writing. The paper is assessed by a departmental committee. If it approves the paper and the student has at least a "B"

average in the major field, the department recommends that the student be Graduated with Distinction in his major field. Interested students should consult the Director of Undergraduate Studies in the appropriate department.

SIXTH PROPOSAL.

That any student be allowed, with the approval of his instructor and adviser, to engage in independent study, and that the limits of such study be determined by the student, his adviser, and the instructor concerned.

SEVENTH PROPOSAL.

That a student must have the signature of his adviser approving his course of study before he may register, and that if a student and adviser cannot agree on a program, the Chairman of the Sub-committee on Curriculum decide the issue.

EIGHTH PROPOSAL.

A. In addition to a completion of an approved curriculum, a student must pass at least 32 semester courses, or a combination of semester-courses, half-courses, and double-courses, that would be equivalent to 32 semester courses.

B. Twenty-four of the 32 courses required for graduation must be passed with a grade of C- or better.

C. A student must have the permission of his academic dean to take less than four courses per semester, or to take five or more courses.

D. Four calendar years (eight semesters) in residence is the normal amount of time a student may take to earn the degree of Bachelor of Arts or Bachelor of Science. Five years is the absolute maximum to be permitted, unless the student has previously been admitted as a special student.

E. The minimum time that any student may spend in residence before taking a degree of Bachelor of Arts or Bachelor of Science is two years; these must include the student's last two years at Duke, unless the student has spent a certain period of time in study at another institution in this country or abroad, having received prior approval from Duke for this course of study.

F. Failing grades appear on the transcript, but graduation depends on courses passed, and is not governed by those failed.

NINTH PROPOSAL.

That a student who fails three or more courses in the first semester of the freshman year or who fails two or more courses in any subsequent semester must withdraw from the University for at least one regular academic semester. A student will be permanently dismissed from the University if he is subject a second time to withdrawal for failing two or more courses in any semester. In addition, a student's academic dean may dismiss any student not making satisfactory progress toward graduation; students so dismissed might at their request have their cases reviewed by the Committee on Academic Standards, a standing committee of the Undergraduate Faculty Council.

TENTH PROPOSAL.

That satisfactory completion of one year of physical activity be required for graduation unless a student is excused for medical reasons. This requirement would be met by satisfactory completion of one year in appropriate physical education courses or by an alternate form of approved physical activity. The student must begin to fulfill this requirement in his freshman year. The student receives no letter grade for physical activities taken to satisfy this requirement.

ELEVENTH PROPOSAL.

That no more than four courses in the military sciences be counted toward a student's graduation.

Respectfully submitted,

The Sub-Committee on Curriculum
of the Committee on Undergraduate
Instruction of the Undergraduate
Faculty Council:

John Altrocchi
Hugh Hall
Frederick Joerg
Robert Krueger
Harold Parker
Bruce Wardropper
Paul Welsh
Donald Fluke, Chairman

EXHIBIT E-2

DUKE UNIVERSITY
SELECTED INFORMATION CONCERNING THE CHARTER, TRUSTEES, AND FACULTY[13]

INDENTURE OF TRUST

Among the provisions of James B. Duke's Indenture of Trust was an educational institution to be known as Duke University, to the building and support of which he made provisions at the time of execution of the Indenture and later by additions thereto by the operation of his Will. In respect to Duke University the Indenture contains the following provisions:

I. (In Article FOURTH) The Trustees hereunder are hereby authorized and directed to expend as soon as reasonably may be not exceeding Six Million Dollars of the corpus of this trust in establishing at a location to be selected by them within the State of North Carolina an institution of learning to be known as Duke University, for such purpose to acquire such land and erect and equip thereon such buildings according to such plans as the Trustees may in their judgment deem necessary and adopt and approve for the purpose to cause to be formed under the laws of such state as the Trustees may select for the purpose a corporation adequately empowered to own and operate such properties under the name of Duke University as an institution of learning according to the true intent hereof, and convey to such corporation when formed the said lands, buildings and equipment upon such terms and conditions as that such corporation may use the same only for such purposes of such universities and upon the same ceasing to be so used then the same shall forthwith revert and belong to the Trustees of this trust as and become a part of the corpus of this trust for all the purposes thereof.

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[13] Faculty Handbook, Duke University, 1968.

However, should the name of Trinity College, located at Durham, North Carolina, a body politic and incorporate, within three months from the date hereof (or such further time as the Trustees hereof may allow) be changed to Duke University, then, in lieu of the foregoing provisions of this division "FOURTH" of the Indenture as a memorial to his father, Washington Duke, who spent his life in Durham and whose gifts, together with those of Benjamin N. Duke, the brother of the party of the first part, and of other members of the Duke family, have so largely contributed toward making possible Trinity College at that place, he directs that the Trustees shall expend of the corpus of this trust as soon as reasonably may be a sum not exceeding Six Million Dollars in expanding and extending said University, acquiring and improving such lands, and erecting, removing, remodeling and equipping such buildings, according to such plans, as the Trustees may adopt and approve for such purpose to the end that said Duke University may eventually include Trinity College as its undergraduate department for men, a School of Religious Training, a School for Training Teachers, a School of Chemistry, a Law School, Coordinate College for Women, a School of Business Administration, a Graduate School of Arts and Sciences, a Medical School and an Engineering School, as and when funds are available.

II. (In Article FIFTH) Thirty-two per cent of said net amount not retained as aforesaid for addition to the corpus of this trust shall be paid to that Duke University for which expenditures of the corpus of the trust shall have been made by the Trustees under the "Fourth" division of this Indenture so long as its name shall be Duke University and it shall not be operated for private gain, to be utilized by its Board of Trustees, in defraying its administration and operating expenses, increasing and improving its facilities and equipment, the erection and enlargement of buildings and the acquisition of additional acreage for it, adding to its endowment or in such other manner for it as the Board of Trustees of said institution may from time to time deem to be of its best interests, provided that in case such institutions shall incur any expense or liability beyond provisions already in sight to meet same, or in the judgment of the Trustees under this Indenture be not operated in a manner calculated to achieve the results intended hereby the Trustees under this Indenture may withhold the whole or any part of such percentage from said institution so long as such character of expense or liabilities or operation shall continue, such amounts so withheld to be in whole or in part either accumulated and applied to the purposes of such University in any future year or years, or utilized for the other objects of this Indenture, or added to the corpus of this trust for the purpose of increasing the principal of the trust estate, as the Trustees may determine.

III. (In Article SEVENTH) I have selected Duke University as one of the principal objects of this trust because I recognize that education, when conducted along sane and practical, as opposed to dogmatic and theoretical, lines, is, next to religion, the greatest civilizing influence. I request that this institution secure for its officers, trustees, and faculty, men of such outstanding character, ability, and vision as will insure its attaining and maintaining a place of real leadership in the educational world, and that great care and discrimination be exercised in admitting as students only those whose previous records show a character, determination, and application evincing a wholesome and real ambition for life. And I advise that the courses at this institution be arranged, first, with special reference to the training of preachers, teachers, lawyers and physicians, because these are most in the public eye, and by precept and example can do most to uplift mankind, and second, to instruction in chemistry, economics, and history, especially the lives of the great of earth, because I believe that such subjects will most help to develop our resources, increase our wisdom and promote human happiness.

IV. (In Article THIRD) as respects any year or years and any purpose or purposes for which this trust is created (except the payments hereinafter directed to be made to Duke University) the Trustees in their uncontrolled discretion may withhold the whole or any part of said incomes, revenues and profits which would otherwise be distributed under the "Fifth" division hereof, and either (1) accumulate the whole or any part of the amount so withheld for expenditures (which the Trustees are hereby authorized to make thereof) for the same purpose in any future year or years, or (2) add the whole or any part of the amounts so withheld to the corpus or the trust, or (3) pay, apply and distribute the whole or any part of said amounts to and for the benefit of any one or more of the other purposes of this trust, or (4) pay, apply and distribute the whole or any part of said amounts to or for the benefit of any such like charitable, religious or educational purpose within the State of North Carolina or the State of

South Carolina, or any such like charitable hospital purpose which shall be selected therefor by Trustees called for the purpose, complete authority and discretion in and for such selection and utilization being hereby given the Trustees in the premises.

EXCERPTS FROM THE CHARTER OF THE UNIVERSITY

* * *

Section 2. That such corporation is authorized to receive and hold by gift, device, purchase or otherwise, property, real and personal, to be held for the use of said University and its dependent schools or for the use of either or both (as may be designated in the conveyance or will).

* * *

Section 4. That the said corporation shall be under the supervision, management and government of a president and such other persons as said Trustees may appoint; the said president, with the advice of other persons so appointed, shall from time to time make all needful rules and regulations for the internal government of said University and prescribe the preliminary examinations and terms and conditions on which pupils shall be received and instructed.

Section 5. That said Trustees shall have power to make such rules, regulations, bylaws not inconsistent with the Constitution of the United States and of this State, as may be necessary for the good government of said University and management of the property and funds of the same.

* * *

Section 7. That the Faculty and Trustees shall have the power of conferring such degrees and marks of honor as are conferred by colleges and universities generally; and that five Trustees shall be a quorum to transact business.

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BYLAWS OF THE UNIVERSITY

Article I. Aims

1. The aims of Duke University are to assert a faith in the eternal union of knowledge and religion set forth in the teachings and character of Jesus Christ, the Son of God; to advance learning in all lines of truth; to defend scholarship against all false notions and ideals; to develop a Christian love of freedom and truth; to promote a sincere spirit of tolerance; to discourage all partisan and sectarian strife; and to render the largest permanent service to the individual, the state, the nation, and the church. Unto these ends shall the affairs of this University always be administered.

Article II. Board of Trustees

1. Powers. All powers of the University shall be vested in a Board of Trustees consisting of thirty-six members.

2. Nomination and Elections. The Trustees shall be elected as follows, twelve by the North Carolina Conference of the Methodist Church; and twelve by the General Alumni Association of Duke University.

The Executive Committee, acting as a committee on nominations, shall report to the Board the names of the persons whom it nominates for election as Trustees. The Board, by majority vote of the Trustees present at a regular meeting, shall recommend the persons to be elected Trustees and submit its recommendations to the appropriate Conference of the Methodist Church and the General Alumni Association.

No person who shall have attained the age of seventy years shall be elected a Trustee.

* * *

Article XI. President

1. The President shall be the chief educational and administrative officer of the University. He shall be responsible to the Board of Trustees for the supervision, management, and government of the University, and for interpreting and carrying out the policies of the Board of Trustees. He shall have the powers and duties set forth in the Charter and in these Bylaws, and such other powers and duties as the Board of Trustees shall delegate to him.

2. He, or someone designated by him, shall preside at all academic functions and represent the University before the public.

3. He shall preside at all meetings of the University Faculty. He may veto any action taken by the University Faculty or any action taken by the faculty of any college or school in the University and state his reasons for such action.

4. He shall submit a proposed annual budget for the University to the Executive Committee prior to the beginning of the fiscal year covered by the budget.

5. He shall submit to the Board of Trustees an annual report on the condition, operations and needs of the University.

6. He shall recommend to the Board of Trustees persons to be officers of the University other than the President.

Article XII. Provost

1. The Provost shall be an executive officer of the University, under the President, responsible for all educational affairs and activities, including research and the University Hospital, and for all aspects of student activity and welfare. He shall have the powers and duties assigned to him by the President and shall report to the President.

2. He shall be a member of the faculty of each college and school, and ex officio a member of each committee (other than Committees of the Board of Trustees) or other body concerned with matters for which he is responsible.

3. He shall receive recommendations developed by the faculty and educational officers for consideration and recommendation to the President.

4. He shall assume the powers and duties of the President during the incapacity or absence of the President or in case of a vacancy in that office.

Article XIII. Vice President for Business and Finance

1. The Vice President for Business and Finance shall be an executive officer, under the President, responsible for all business and finance, including accounting and auditing, preparation of budgets, fiscal planning, and operating of services of the University. He shall have the power and duties assigned to him by the President and shall report to the President.

2. He shall have custody of all records, contracts, agreements, deeds, and other documents of the University or relating to its operations or properties, except minutes of meetings.

3. He shall submit to each regular meeting of the Executive Committee a report on those aspects of the finances of the University that the Executive Committee may require, and shall submit to the Board of Trustees at the end of each fiscal year an account of all receipts and disbursements for the preceding year and a statement in such detail as the Board of Trustees may require of the financial condition of the University at the end of such year.

4. He and the personnel under him shall be bonded to the extent determined by the Executive Committee.

Article XIV. Vice President for Institutional Advancement

The Vice President for Institutional Advancement shall be an executive officer, under the President, responsible for all public and alumni relations, fund raising, and long range planning and development. He shall have the powers and duties assigned to him by the President and shall report to the President.

Article XV. Treasurer

1. The Treasurer shall report to the President or such officer of the University as the President may direct and shall have the powers and duties assigned to him by the President or such other officer.

2. He may receive and disburse investment funds and purchase, sell, or otherwise dispose of investment securities pursuant to the directions of the Executive Committee or Investment Committee, as the case may be.

3. He and the personnel under him shall be bonded to the extent determined by the Executive Committee.

Article XVI. Secretary

1. The Secretary, under the President, shall have all of the powers and duties set forth in these Bylaws and the powers and duties commonly incident to his office. He also has the powers and duties assigned to him by the President and shall report to the President.

2. He shall be the custodian of the seal of the corporation and shall affix and attest to same on all duly authorized contracts, deeds, and other documents.

3. He shall maintain an official roster setting forth the status of all persons employed by the University.

Article XVII. University Counsel

1. The University Faculty shall be composed of the President, the Provost, the Vice Presidents, the Secretary (who shall also be the Secretary of the Faculty), all deans, professors, associate professors, and assistant professors, Registrar, and the University Librarian, and such other persons as may be designated by the President and approval by the Executive Committee or the Board of Trustees.

2. The University Faculty shall be responsible for the conduct of instruction and research in the various colleges and schools in the University. It may also consider and make recommendations to the President regarding any and all phases of education at the University.

3. The University Faculty shall approve and recommend to the Board of Trustees the persons it deems fit to receive

degrees or other marks of distinction, and the establishment of any new degree or diploma.

4. The University Faculty may organize and exercise its function through appropriate councils, committees, or other bodies.

5. Each college and school in the University may have a faculty of its own, which shall be composed of the President, the Provost, the Secretary, and all members of the University Faculty in the particular college or school. Each such faculty shall function under the President and other officers of educational administration and subject to the regulations of the University Faculty.

* * *

ACADEMIC FREEDOM AND ACADEMIC TENURE

Based upon the work of a special committee of the Academic Council, the following statement of policy and procedures was adopted by the University Planning and Policy Advisory Committee and accepted by the President:

Duke University has had a long history of responsible academic freedom in which it takes justifiable pride. Academic freedom and academic tenure provide the security within the University to pursue the search for truth and its exposition which are essential to the furthering of human knowledge and to the continued intellectual growth of the faculty and the students. Therefore the President and the Academic Council of Duke University reaffirm the basic principles of academic freedom and recognize specific procedures for achieving and preserving academic tenure.

I. ACADEMIC FREEDOM

A member of the instructional staff is free:

A. To teach and to discuss in his classes any aspect of a topic pertinent to the understanding of the subject matter of the course which he is teaching.

B. To carry on research and publish the results subject to the adequate performance of his other academic duties.

C. To act and to speak in his capacity as a citizen without institutional censorship or discipline.

II. ACADEMIC TENURE

A. Academic tenure may be achieved for a specific period of time in the case of "term appointments" or indefinitely in the case of "continuous academic tenure appointments." Article XIX, paragraph 2 of the University bylaws states: "Members of the University faculty, above the rank of instructors, shall have tenure after seven years of continuous service at the University, or such shorter period as may be determined for individual cases, by the Board of Trustees or the Executive Committee; provided that any such person shall be subject to dismissal by the Board of Trustees or the Executive Committee for misconduct or neglect of duty."

B. Nominations for appointment or promotion to the rank of associate professor or professor on the faculty of Duke University for full-time service, unless the duration of the appointment is stated in writing, normally will include a recommendation that the nominee receive continuous academic tenure.

C. An assistant professor with continuous full-time service at Duke University for a total period of seven years in the rank of assistant professor or instructor (associate in the Medical School) and whose appointment extends beyond the seventh year of full-time service, attains continuous academic tenure at the beginning of his eighth year of service. A full-time assistant professor may be granted continuous academic tenure before completing seven years of full-time continuous service at the University by specific action of the Executive Committee of the Board of Trustees. Consideration may be given to the years of service at other institutions of higher learning in awarding continuous academic tenure at Duke University.

D. Persons holding administrative positions achieve academic tenure by reason of their academic instructional rank as provided by paragraphs B and C above.

E. A faculty member who has been granted continuous academic tenure will not lose his tenure status if, with mutual consent of, and periodic review by, the University and the faculty member, he transfers to a part-time service.

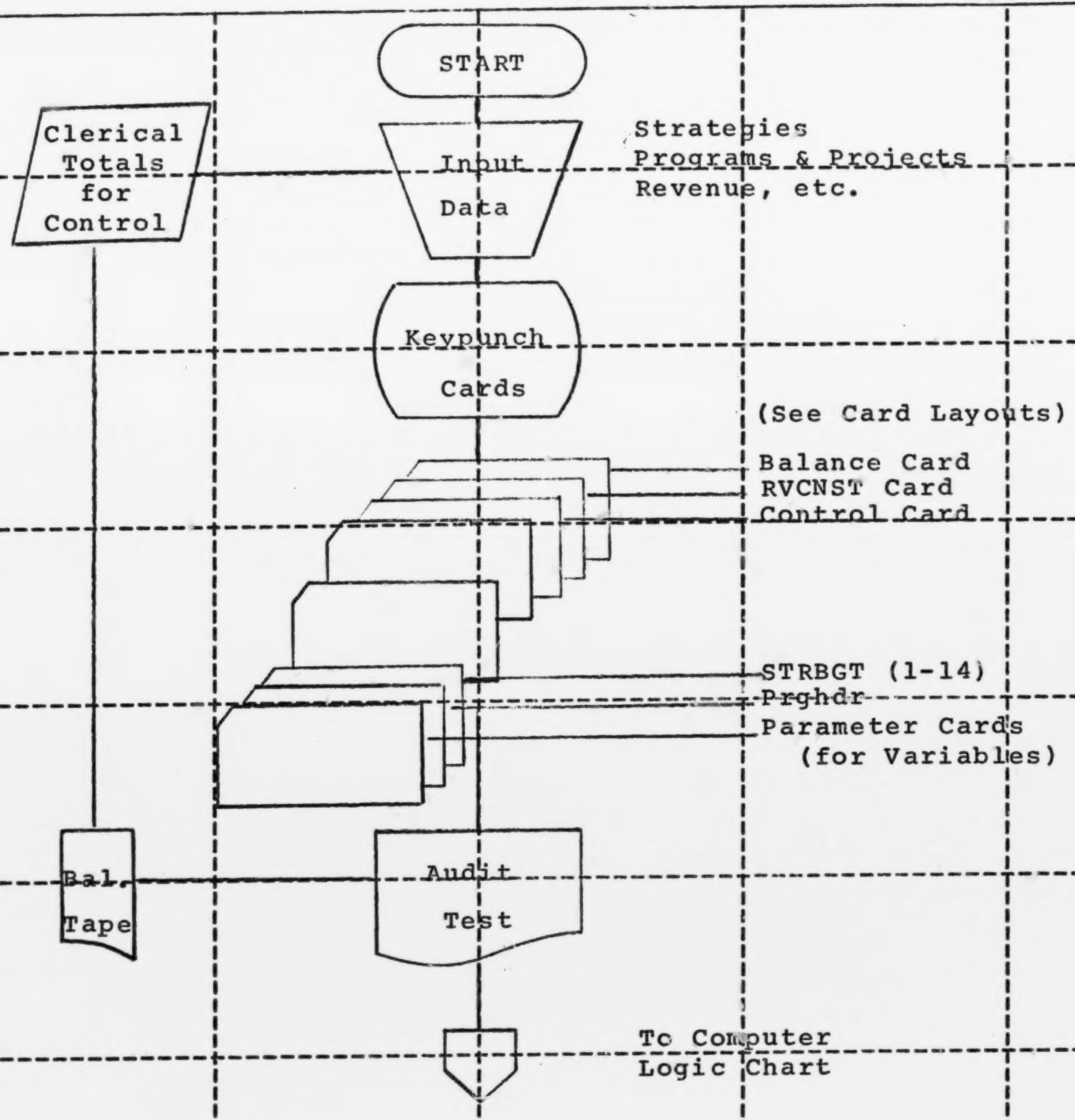
* * *

PROJECT NAME APPENDIX F-1 PROJECT NUMBER

FLOW CHART FOR COMPUTER PROGRAM FOR COMPUTATIONS OF UTILIZATION RATIO

DRAWN BY DATE PAGE 1 OF 4

5-6-4

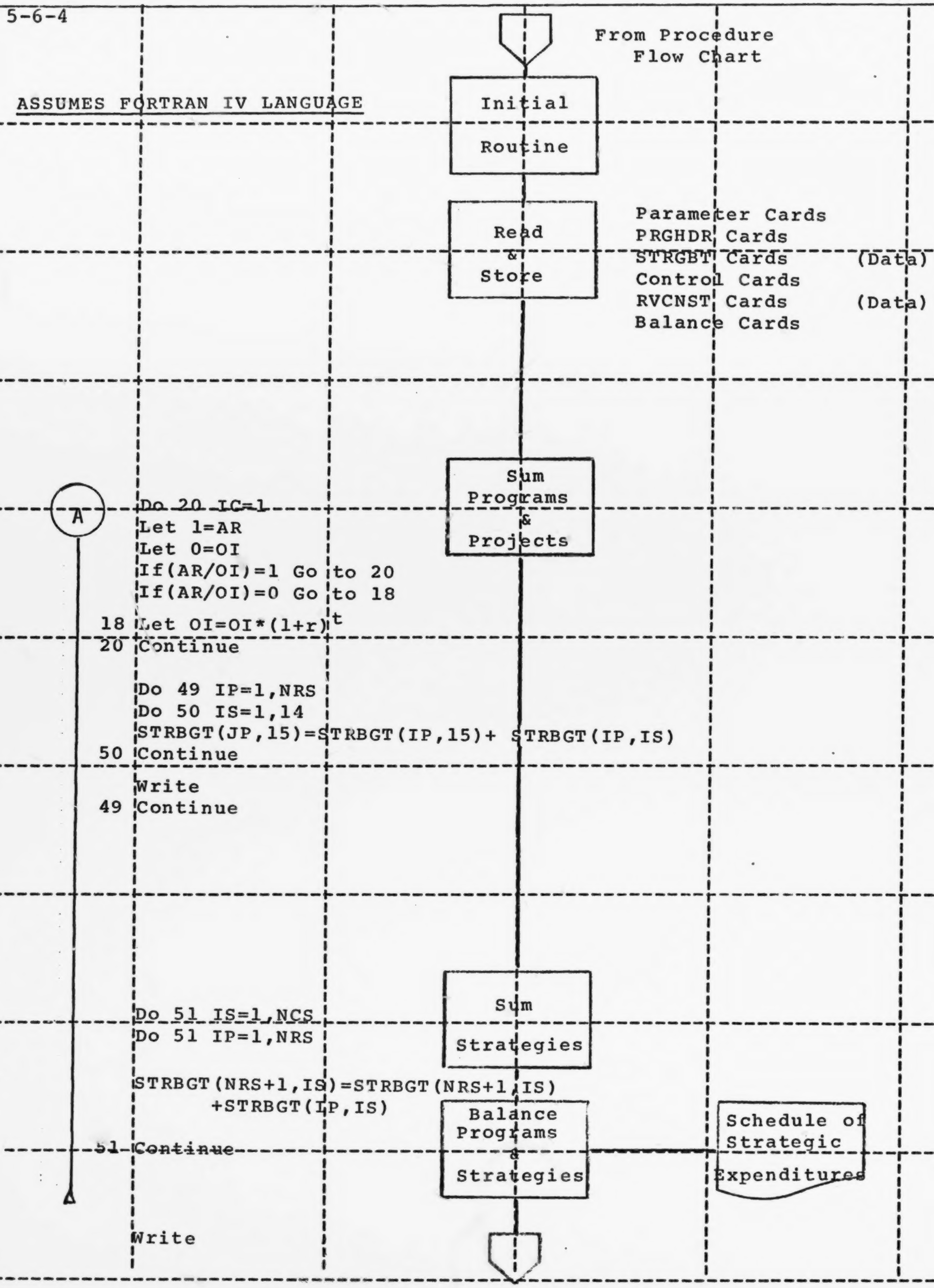

START
Clerical Totals for Control
Input Data
Strategies
Programs & Projects
Revenue, etc.
Keypunch Cards
(See Card Layouts)
Balance Card
RVCNST Card
Control Card
STRBGT (1-14)
Prghdr
Parameter Cards
(for Variables)
Bal. Tape
Audit Test
To Computer
Logic Chart

PROJECT NAME PROJECT NUMBER

DRAWN BY DATE PAGE 2 OF 4

5-6-4

ASSUMES FORTRAN IV LANGUAGE


From Procedure Flow Chart
Initial Routine
Read & Store
Parameter Cards
PRGHDR Cards
STRGBT Cards (Data)
Control Cards
RVCNST Cards (Data)
Balance Cards
Sum Programs & Projects
A
Sum Strategies
Balance Programs & Strategies
Schedule of Strategic Expenditures

```
    Do 20 IC=1
    Let 1=AR
    Let 0=OI
    If(AR/OI)=1 Go to 20
    If(AR/OI)=0 Go to 18
18  Let OI=OI*(1+r)^t
20  Continue

    Do 49 IP=1,NRS
    Do 50 IS=1,14
    STRBGT(JP,15)=STRBGT(IP,15)+ STRBGT(IP,IS)
50  Continue
    Write
49  Continue

    Do 51 IS=1,NCS
    Do 51 IP=1,NRS

    STRBGT(NRS+1,IS)=STRBGT(NRS+1,IS)
          +STRBGT(IP,IS)
51  Continue

    Write
```

PROJECT NAME PROJECT NUMBER

DRAWN BY DATE PAGE 3 OF 4

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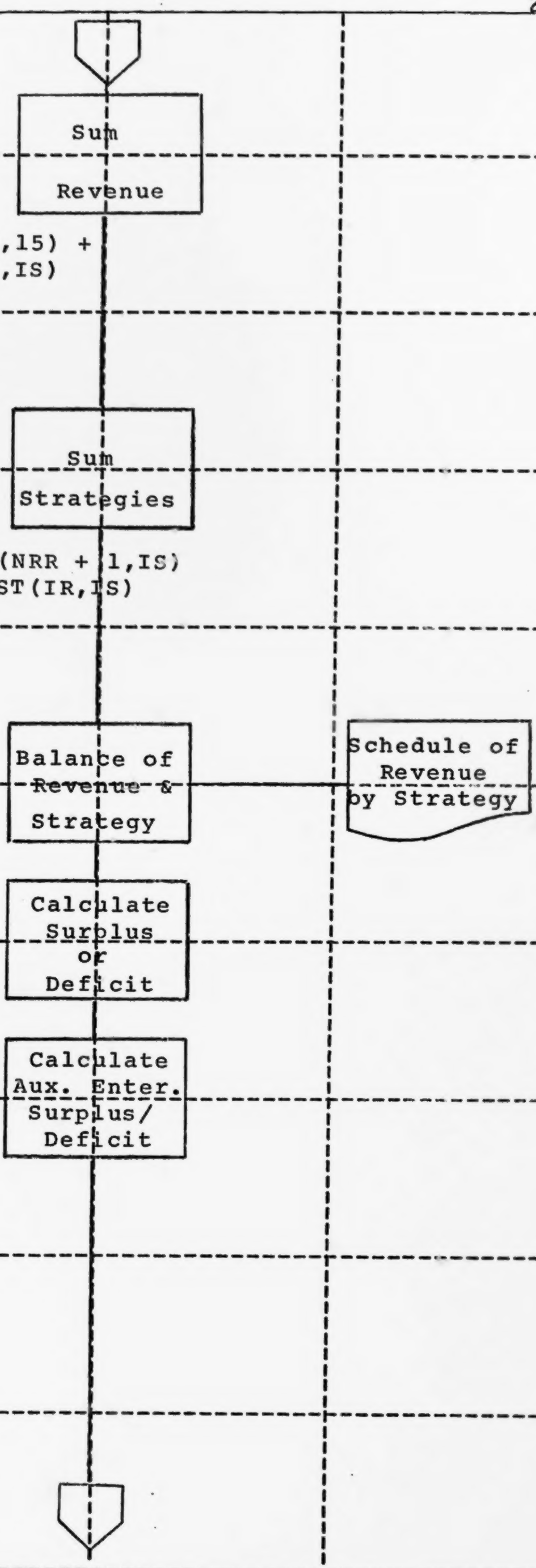
Sum Revenue
Sum Strategies
Balance of Revenue & Strategy
Schedule of Revenue by Strategy
Calculate Surplus or Deficit
Calculate Aux. Enter. Surplus/ Deficit

```
   Do 48 IR=1, NRR
   Do 52 IS=1,14
   RVCNST(IR,15)=RVCNST(IR,15) +
                 RVCNST(IR,IS)
52 Continue
   Write
48 Continue
   Do 53 IS=1,NCR
   Do 53 IR=1,NRR
   RVCNST(NRR+1,IS)=RVCNST(NRR + 1,IS)
                   + RVCNST(IR,IS)
53 Continue
   Write
   STRBGT less RVCNST
   If $RD \leq CD$
   Let RD=CD (DU)
   Let $S_1=RD(LD)-OD(1+r)^t$
   If $RD > CD$
   Let $S_1=CD(LD)-OD(1+r)^t$
   If $RH \leq CH$
   ~~Let RH=CH(DHU)~~
   Let $S_2=RH(BH)-OH(1+r)^t$
   If $RH > CH$
   Let $S_2=CH(BH)-OH(1+r)^t$
   If $SR \leq SC$
   Let $S_3=SR(RB-OB)\ (1+r)^t$
   If $SR > SC$
   Let $S_3=SC(RB-OB)\ (1+r)^t$
   Let $S=S_1+S_2+S_3+\ldots S_n$
```

PROJECT NAME PROJECT NUMBER

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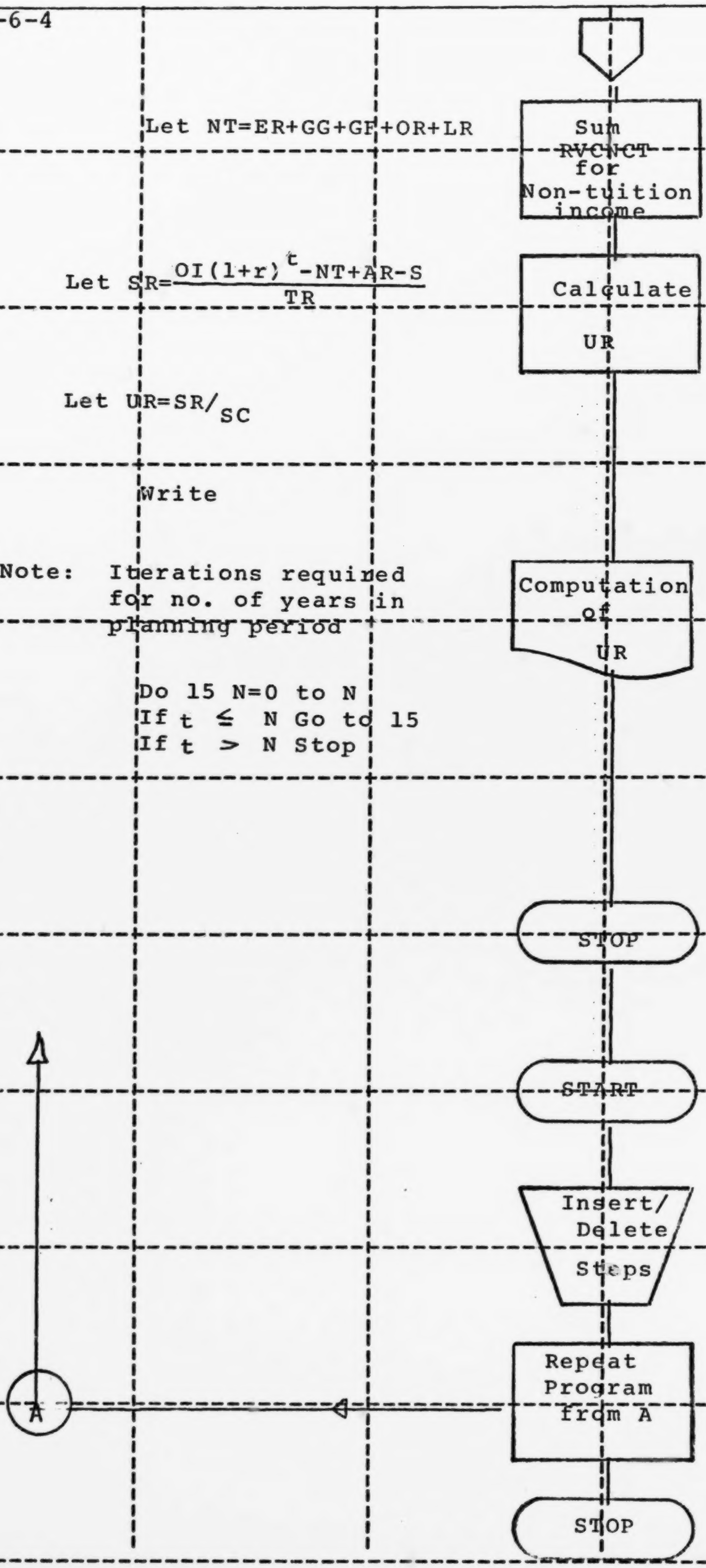
Sum
~~RVCNCT~~
for
Non-tuition
income
Calculate
UR
Computation
of
UR
STOP
START
Insert/
Delete
Steps
Repeat
Program
from A
STOP
A

Let $NT=ER+GG+GF+OR+LR$

Let $SR=\frac{OI(1+r)^{t}-NT+AR-S}{TR}$

Let $UR=SR/_{SC}$

Write

Note: Iterations required for no. of years in planning period

```
Do 15 N=0 to N
If $t \leq N$ Go to 15
If $t > N$ Stop
```

Administrators may insert/
delete:

1) New programs or projects
2) Strategy changes
3) Revenue constraints
4) Other

APPENDIX F-2
CARD LAYOUTS

Parameter	CC CARD CODE 01	DC DATA CODE	IY YEAR		TR Tuition Rate	LD Room Chg.	BH Board Chg.	RB Book-store Rects.	OB Book-store oper. Cost	CD Dorm. Capacity	CH Dining Hall Capacity	SC Inst. Capacity	DU % Dorm. Util.	DHU % Din. Hall Util.	R CONST INCR.	
	9 9	9 9	9 9	9 9 9	9 9 9 9	9 9 9	9 9 9	9 9 9	9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9	9 9 9	9 9	9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9
	1 2	3 4	5 6	7 8 9	10 11 12 13	14 15 16	17 18 19	20 21 22	23 24 25	26 27 28 29 30	31 32 33 34 35	36 37 38 39 40	41 42 43	44 45 46	47 48	49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80

Header				OI/AR		Description	One / Program One / Revenue
	9 9	9 9	9 9	9	9 9	9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9	9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9
	1 2	3 4	5 6	7	8 9	10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29	30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80

Program					IS STRATEG	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
	9 9	9 9	9 9	9	9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9
	1 2	3 4	5 6	7	8 9	10 11 12 13 14	15 16 17 18 19	20 21 22 23 24	25 26 27 28 29	30 31 32 33 34	35 36 37 38 39	40 41 42 43 44	45 46 47 48 49	50 51 52 53 54	55 56 57 58 59	60 61 62 63 64	65 66 67 68 69	70 71 72 73 74	75 76 77 78 79	80

Revenue																				
	9 9	9 9	9 9	9	9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9 9 9 9 9	9
	1 2	3 4	5 6	7	8 9	10 11 12 13 14	15 16 17 18 19	20 21 22 23 24	25 26 27 28 29	30 31 32 33 34	35 36 37 38 39	40 41 42 43 44	45 46 47 48 49	50 51 52 53 54	55 56 57 58 59	60 61 62 63 64	65 66 67 68 69	70 71 72 73 74	75 76 77 78 79	80

Control					IS	Bal. Control	End of Data / Balance Control
	9 9	9 9	9 9	9	9 9	9 9 9 9 9	9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9
	1 2	3 4	5 6	7	8 9	10 11 12 13 14	15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80

Insert/Delete		DC		I/D	IS		(Special Code To Delete an entire Column—or Strategy)
	9 9	9 9	9 9	9	9 9	9 9 9 9 9	9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9 9
	1 2	3 4	5 6	7	8 9	10 11 12 13 14	15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80